December 11, 2003

<u>VIA EMAIL ONLY</u>

RE: I/M/O the Petition of Elizabethtown Water Company for an Increase in Rates for Water Service and Other Tariff Modifications
BPU Docket No. WR03070510
OAL Docket No. PUCRL 07281-2003N

TO: SERVICE LIST MEMBERS

Enclosed please find the electronic copies of the direct testimonies of the Division of the Ratepayer Advocate's witnesses, Robert J. Henkes, James A. Rothschild, Barbara R. Alexander, Howard J. Woods, and Brian Kalcic, in connection with the above referenced matter.

Should you require anything further, please do not hesitate to contact our office.

Very truly yours,
SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE

By: ______________________________
Robert J. Brabston, Esq.
Deputy Ratepayer Advocate

RJB/slc

BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION	**)**	
OF ELIZABETHTOWN WATER	**)**	**BPU Docket No. WR03070510**
COMPANY FOR AN INCREASE IN	**)**	**OAL Docket No. PUCRL 07281-2003N**
RATES FOR WATER SERVICE AND	**)**	
OTHER TARIFF MODIFICATIONS	**)**	

DIRECT TESTIMONY AND EXHIBITS OF ROBERT J. HENKES
ON BEHALF OF THE
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE
Division of the Ratepayer Advocate
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, New Jersey 07101
(973) 648-2690 – Phone
(973) 624-1047 – Fax
www.rpa.state.nj.us
njratepayer@rpa.state.nj.us

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ELIZABETHTOWN WATER COMPANY
BPU Docket No. WR03070510
Direct Testimony of Robert J. Henkes

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I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU STATE YOUR NAME AND ADDRESS?

A. My name is Robert J. Henkes and my business address is 7 Sunset Road, Old Greenwich, Connecticut 06870.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am Principal and founder of Henkes Consulting, a financial consulting firm that specializes in utility regulation.

Q. WHAT IS YOUR REGULATORY EXPERIENCE?

A. I have prepared and presented numerous testimonies in rate proceedings involving electric, gas, telephone, water and wastewater companies in jurisdictions nationwide including Arkansas, Delaware, District of Columbia, Georgia, Kentucky, Maryland, New Jersey, New Mexico, Pennsylvania, Vermont, the U.S. Virgin Islands and before the Federal Energy Regulatory Commission. A complete listing of jurisdictions and rate proceedings in which I have been involved is provided in Appendix I attached to this testimony.

Q. WHAT OTHER PROFESSIONAL EXPERIENCE HAVE YOU HAD?

A. Prior to founding Henkes Consulting in 1999, I was a Principal of The Georgetown Consulting Group, Inc. for over 20 years. At Georgetown Consulting I performed the same type of consulting services as I am currently rendering through Henkes Consulting. Prior to my association with Georgetown Consulting, I was employed by the American Can Company as Manager of Financial Controls. Before joining the American Can Company, I was employed by the management consulting division of Touche Ross & Company (now Deloitte & Touche) for over six years. At Touche Ross, my experience, in addition to regulatory work, included numerous projects in a wide variety of industries and financial disciplines such as cash flow projections, bonding feasibility, capital and profit forecasting, and the design and implementation of accounting and budgetary reporting and control systems.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Bachelor degree in Management Science received from the Netherlands School of Business, The Netherlands in 1966; a Bachelor of Arts degree received from the University of Puget Sound, Tacoma, Washington in 1971; and an MBA degree in Finance received from Michigan State University, East Lansing, Michigan in 1973. I have also completed the CPA program of the New York University Graduate School of Business.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. WHAT IS THE SCOPE AND PURPOSE OF THIS TESTIMONY?

A. I was engaged by the New Jersey Division of the Ratepayer Advocate ("Ratepayer Advocate") to conduct a review and analysis and present testimony in the matter of the petition of Elizabethtown Water Company ("EWC" or the "Company") for an increase in rates for water service.

The purpose of this testimony is to present to the New Jersey Board of Public Utilities ("BPU" or "the Board") the appropriate rate base, pro forma test period operating income and overall revenue requirement for the Company in this proceeding.

In the determination of the Company's appropriate revenue requirement, I have relied on and incorporated the recommendations of Ratepayer Advocate witness James Rothschild concerning the appropriate capital structure, capital cost rates and overall rate of return.

In developing this testimony, I have reviewed and analyzed the Company's July 10, 2003 filing; supporting testimonies, exhibits and workpapers; the Company's responses to initial and follow-up data requests by the Ratepayer Advocate and BPU Staff; and other relevant financial documents and data. In addition, I attended an informal discovery conference in Newark, New Jersey on November 3, 2003. Information obtained in this conference has been incorporated in this testimony.

III. SUMMARY OF FINDINGS AND CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS IN THIS CASE.

A. I have reached the following findings and conclusions in this docket:

1. The appropriate pro forma rate base amounts to $526.070 million which is $75.153 million lower than the Company's proposed pro forma rate base of $601.223 million. Schedule RJH-1, line 1 and Schedule RJH-3.
2. The appropriate pro forma operating income amounts to $41.690 million, which is $4.048 million higher than the Company's proposed pro forma operating income of $37.643 million. Schedule RJH-1, line 4 and Schedule RJH-8.
3. The appropriate overall rate of return for the Company, as recommended by Ratepayer Advocate witness James Rothschild, is 6.96%, incorporating a recommended return on equity of 9.10%. This compares to EWC's proposed overall rate of return of 8.00%, including a requested return on equity rate of 11.25%. Schedule RJH-1, line 2 and Schedule RJH-2
4. The appropriate Revenue Conversion Factor to be used for ratemaking purposes in this case is 1.76375. Schedule RJH-1, line 6 and footnote (2).
5. The recommended ratemaking components outlined above indicate the need for a rate decrease of $8.949 million. This recommended rate decrease is $27.388 million lower than the Company's proposed rate increase of $18.440 million. Schedule RJH-1, lines 5-7.

IV. REVENUE REQUIREMENT ISSUES

A. TEST YEAR AND PRO FORMA YEAR

Q. PLEASE DESCRIBE THE TEST YEAR AND PRO FORMA YEAR USED BY EWC TO SUPPORT ITS REQUESTED RATE INCREASE IN THIS PROCEEDING.

A. The Company's proposed Test Year in this case is calendar year 2002, including 12 months of actual data. The Company then adjusted its Test Year results for rate base, revenue, expense and tax changes projected to occur in calendar year 2003 and, with regard to plant in service, for projected plant balances as of June 30, 2004, the assumed rate effective date of this case. In an effort to be consistent with this Pro Forma Year approach, the Company annualized its revenues based on projected billing determinants as of December 31, 2003, reflected depreciation expenses based on the projected June 30, 2004 depreciable plant balances, and reflected adjusted annualized O&M expenses and taxes based on expense and tax projections for the Pro Forma Year ending December 31, 2003 and into calendar year 2004.

Q. DO YOU BELIEVE THAT THIS PROPOSED TEST YEAR AND PRO FORMA YEAR RATE MAKING APPROACH IS REASONABLE FOR PURPOSES OF DETERMINING NJAWC'S REVENUE REQUIREMENT IN THIS CASE?

A. Not entirely. While I agree with the use of the proposed 2002 Test Year as the starting point and the use of calendar year 2003 as the Pro Forma Year, I do not agree with the Company's proposal to use projected plant in service balances and annualized depreciation expenses as of June 30, 2004. I will discuss my disagreement on this point in more detail later in this testimony. At the time of this writing, actual results for the first 10 months of the Pro Forma Year ended December 31, 2003 have been available for review and analysis and have been relied on in the preparation of this testimony, and by the time of the scheduled hearings in this case, actual data for the full Pro Forma Year are expected to be available.

In summary, for the foregoing reasons, I believe that it is reasonable and appropriate to use a Test Year of 2002 and Pro Forma Year of 2003 for purposes of determining EWC's revenue requirement in this proceeding. However, the Company's proposal to reflect projected post-Pro Forma Year plant in service balances as of June 30, 2004, together with the associated annualized depreciation expenses, should be rejected by Your Honor and the Board.

B. RATE BASE

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED PRO FORMA RATE BASE, THE METHOD EMPLOYED BY THE COMPANY TO DETERMINE ITS PRO FORMA RATE BASE, AND YOUR RECOMMENDED RATE BASE ADJUSTMENTS.

A. The Company's proposed pro forma rate base of $601.223 million is summarized by specific rate base component in the first column on Schedule RJH-3. All of the Company's proposed pro forma rate base balances except those for utility plant in service, prepayments, materials & supplies, and cash working capital represent fully projected balances as of December 31, 2003, the end of the Pro Forma Year in this case. The proposed utility plant in service balance is stated as of June 30, 2004, the presumed rate effective date of this case. The proposed rate base balances for prepayments and materials & supplies represent the 13-month average balances for the Test Year ended December 31, 2002 and the claimed cash working capital requirement has been determined through a detailed lead/lag study approach.

I have used December 31, 2003 – the end of the Pro Forma Year in this case – as the cut-off point for the rate base balances to be used for rate making purposes in this case. At this time, I have preliminarily reflected actual account balances as of October 31, 2003 (the latest date for which actual data was available at the time of this writing) for plant in service, customer deposits, accumulated deferred income taxes, customer advances and contributions in aid of construction. These October 31, 2003 rate base balances must be updated for actual balances as of December 31, 2003 once this information has become available. The recommended prepayment and materials & supplies balances represent the average balances for the most recent actual 12-month period ended October 31, 2003. All of the remaining recommended rate base components are currently based on projected balances as of December 31, 2003, but must be updated for actual balances as of December 31, 2003. Depending on the availability of actual data, I intend to provide such updated actual 12/31/03 rate base balances during or after the scheduled hearings in this case.

I have also removed certain of EWC's proposed rate base components and included additional rate base components which the Company has failed to reflect.

As shown in the second and third columns on Schedule RJH-3, the previously described recommended rate base approach has resulted in a number of rate base adjustments with the effect of reducing the Company's proposed rate base by a total amount of $75.153 million. Each of these recommended rate base adjustments will be discussed in detail below.

- **Utility Plant In Service**

Q. PLEASE DESCRIBE THE DERIVATION OF THE COMPANY'S PROPOSED PRO FORMA TEST PERIOD PLANT IN SERVICE BALANCE.

A. The Company has proposed a pro forma plant in service balance of $944.375 million for ratemaking purposes in this case. This pro forma plant balance represents the projected plant in service balance as of the end of the Pro Forma Year, 12/31/03, plus projected plant in service additions from 1/1/04 – 6/30/04. This is the only rate base component for which the Company has reflected post-Pro Forma Year projected balances through 6/30/04.

The Company used the actual 12/31/02 plant in service balance of $874.364 million as the starting point of its proposed pro forma plant in service balance. As shown on Exhibits P-2, Schedule 31, page 2 and PT-4A, Schedule 1, the Company then proposes to add projected 2003 and 2004 plant in service additions totaling approximately $70 million, resulting in a projected 6/30/04 plant in service balance of $944.375 million. As described on page 6 of Mr. Prettyman's testimony, of the total projected plant in service additions of $70 million, an amount of $37 million represents the post-Pro Forma Year 2004 plant additions

Q. WHAT IS THE MOST RECENT ACTUAL PLANT IN SERVICE BALANCE AVAILABLE AT THIS TIME?

A. This is the plant in service balance as of October 31, 2003. As shown in the response to RAR-A-3, the actual plant in service balance as of August 31, 2003 amounts to $882.638 million. This represents an actual plant in service growth for the first 8 months of 2003 of approximately $8.3 million.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO REFLECT PROJECTED POST-PRO FORMA YEAR PLANT IN SERVICE ADDITIONS FROM 1/1/04 TO 6/30/04?

A. No, I do not. The Company's proposed post-Pro Forma Year approach violates the integrity of the test year and the matching principle. For example, while the Company essentially proposes to include in rate base its proposed plant in service balance as of June 2004, it did not propose the same for other rate base components such as the offsetting depreciation reserve and accumulated deferred income tax ("ADIT") balances. Specifically, rather than bringing its entire embedded depreciation reserve included in rate base forward to June 30, 2004, the Company reflected the December 31, 2003 embedded depreciation reserve, adjusted only for 6 month's worth of depreciation on the 2004 post-Pro Forma Year plant additions. If the Company had brought its entire embedded depreciation reserve balance forward to June 30, 2004 (the same point in time as for the proposed plant in service balance), this would have resulted in an additional depreciation reserve rate base deduction of approximately $8 million.[1] Similarly, based on the annual growth experienced in the Company's ADIT balance in 2003 of approximately $3.1 million,[2] one can reasonably assume that the ADIT balance as of June 30, 2004 would be about $1.55 million ($3.1 x 50%) higher. The Company's failure to do so represents a serious mismatch in these three major rate base components.

Another mismatch that is inherent in the Company's proposed post-Pro Forma Year ratemaking approach is the fact that it has reflected plant additions from January 2004 to June 2004, but has failed to reflect corresponding utility plant retirements during the same period.

Finally, while the Company proposes rate base inclusion and annualized depreciation expenses for plant additions extending to June 30, 2004, it has not proposed to reflect offsetting revenue growth from projected customer growth through June 30, 2004.

It should also be noted that the actual balances for the Company's proposed 6/30/04 plant in service account will not be available and cannot be verified for accuracy by the time the record in this proceeding closes, or at the time that Your Honor and the Board will decide this case.

[1] The recommended annualized depreciation based on 12/31/03 plant amounts to approximately $16 million, as shown in Schedule RJH-19. Six months worth of such depreciation expense accruals would add approximately $8 million to the depreciation reserve.

In summary, for all of the foregoing reasons, I recommend that Your Honor and the Board reject the Company's proposal to give rate recognition for projected plant in service additions in the post-Pro Forma Year period 1/1/04 – 6/30/04. Instead, I recommend that rates be set in this case based on the actual plant in service balance at 12/31/03, the end of the Pro Forma Year.

Q. DO YOU ACCEPT, AT THIS TIME, THE COMPANY'S PROPOSED PLANT IN SERVICE BALANCE PROJECTED FOR DECEMBER 31, 2003?

A. No. As described earlier, the Company has projected total plant in service additions of $33 million[3] from 12/31/02 to 12/31/03. Given that the actual plant in service additions for the first 10 months of 2003 were only $8.3 million, I cannot accept at this time the Company's projection that it will add $24.7 million of plant in service during the remaining 2 months of 2003.

Q. WHAT IS YOUR RECOMMENDED POSITION REGARDING THIS ISSUE AT THIS TIME?

A. For the foregoing reasons, I have at this time reflected the Company most recent available actual plant in service balance, that being the balance of $882.638 million as of October 31, 2003. However, I recommend that this plant balance be replaced by the actual plant in service balance as of December 31, 2003 once this information has become available.

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[2] See P-2, Schedule 31: annual growth in ADIT in 2003 is approximately $3.1 million.
[3] Total projected plant in service additions from 12/31/02 to 6/30/04 of $70 million less the $37 million of plant additions projected for the post-Pro Forma Year period 1/1/04 – 6/30/04.

- <u>Acquisition Adjustment</u>

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL WITH REGARD TO THE ACQUISITION ADJUSTMENT ASSOCIATED WITH EWC'S ACQUISITION OF MANVILLE.

A. In 2001, the Company acquired the Borough of Manville water system at a purchase price of approximately $4.9 million, or about $1.9 million in excess of Manville's $3 million net book value. While the Board approved this Manville acquisition on August 1, 2001, it never made a specific ruling as to the ratemaking treatment of the $1.9 million acquisition adjustment associated with this acquisition.

In this case, the Company is proposing an annual Manville acquisition adjustment amortization of $120,660 based the 20-year amortization of an assumed acquisition adjustment balance of $2.413 million. The Company also proposes a rate base inclusion of the assumed unamortized acquisition adjustment starting balance of $2.413 million (see Schedule RJH-3, line 2), net of associated accumulated amortizations included in the amortization reserve (Schedule RJH-3, line 5).

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL REGARDING THIS ACQUISITION ADJUSTMENT IN THIS CASE?

A. No, I do not. In the Company's prior rate case, Docket No. WR01040205, I performed a detailed financial cost/benefit analysis regarding the impact of the Manville acquisition on the revenue requirements of EWC's customers. This cost/benefit analysis was presented in detail on pages 13 through 17 of my testimony in Docket No. WR01040205. The results of this cost benefit analysis were presented on Schedule RJH-5 of my prior case testimony, which has been attached as Exhibit A to my current testimony. As evidenced from this cost/benefit analysis, the Manville acquisition, as reflected by the Company in the prior rate case, resulted in a substantial revenue requirement to EWC's existing customers when compared to the existing pre-acquisition Manville scenario. The Board's current ratemaking policy is that acquisition adjustments can only be given rate recognition[4] if it has been demonstrated that the acquisition results in clearly identified and direct benefits to both the ratepayers of the acquiring utility and the acquired utility. The evidence in EWC's prior rate case clearly showed that the Manville acquisition did not benefit EWC's ratepayers from a financial point of view since it resulted in a significant revenue requirement increase.

Based on the foregoing information, I recommend that all aspects of the Manville acquisition adjustments be removed for ratemaking purposes from this case. Accordingly, I have removed the Company's proposed Manville acquisition adjustment amortization expenses of approximately $121,000 and the unamortized Manville acquisition adjustment rate base balance of $2,413,000, offset by the associated amortization reserve balance of

[4] This does not necessarily mean full rate recognition. For example, in the last NJAWC rate case, BPU Docket No. WR98010015, the Board only granted rate recognition for 50% of the Howell acquisition adjustment. *I/M/O the Petition of New Jersey-American Water Company for an Increase in Rates for Water and Sewer Service and Other Tariff Modifications,* BPU Docket No. WR98010015, Order Adopting in Part and Rejecting in Part Initial Decision at 20-21 (Apr. 6, 1999).

$242,000. My recommended adjustments are shown on Schedule RJH-3, lines 2 and 5, Schedule RJH-6, and Schedule RJH-8, line 12.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THIS ISSUE?

A. Yes. One of the Board's policy guidelines established in NJAWC's Docket WR98010015 regarding the rate treatment for acquisition adjustments concerns the amortization period to be used for acquisition adjustments:

> To further minimize the effect on rates, the Board ORDERS the use of a 40 year amortization period for each acquisition adjustment….[5]

To the extent Your Honor and the Board were to allow rate treatment for this Manville acquisition adjustment, the amortization period should change from 20 years to 40 years on a going forward basis and the annual amortization expense to be reflected in this case should be changed accordingly. In addition, the 40-year amortization amount should be calculated based on the correct acquisition adjustment balance of approximately $1.9 million[6] rather than the Company's reflected acquisition adjustment balance of $2.4 million.

- **Depreciation Reserve**

Q. HOW DID THE COMPANY DERIVE ITS PROPOSED PRO FORMA DEPRECIATION RESERVE BALANCE AS OF DECEMBER 31, 2003 IN THIS

[5] *Id.* at 17.
[6] As confirmed by EWC in the response to RAR-A-8.

CASE?

A. As shown on filing Exhibit P-2, Schedule 31, page 3, the Company used a rather convoluted methodology to project its proposed pro forma depreciation reserve balance as of December 31, 2003. Specifically, the Company started out with the actual reserve balance at 12/31/2002. It then added 12-months worth of annualized depreciation expenses based on the depreciable plant in service balance at 12/31/2002. Next, it added one-half of the difference between (1) its proposed pro forma annualized depreciation expense based on the projected depreciable plant in service balance as of 6/30/04 and (2) the annualized depreciation expenses based on the depreciable plant in service balance at 12/31/2002.

Q. DID YOU DETERMINE THE RECOMMENDED PRO FORMA DEPRECIATION RESERVE BALANCE AS OF DECEMBER 31, 2003 IN A SIMILAR MANNER?

A. No. I recommend a much more straight-forward method to determine the appropriate pro forma annualized depreciation reserve balance as of December 31, 2003, a method that has been accepted by the Board in prior New Jersey rate proceedings and that has been used on a consistent basis for rate making purposes by the Delaware Public Service Commission. This method is shown on Schedule RJH-5. As the starting point it takes the actual depreciation reserve balance as of 12/31/02, the beginning of the Pro Forma Year. To this actual starting point balance is then added the annualized depreciation expenses recommended for rate making purposes in this case. As shown on line 4 of Schedule RJH-5, this results in a recommended pro forma depreciation reserve balance of $191.981 million. As shown on Schedule RJH-3, line 4, this recommended reserve balance is $555,000 lower than the Company's proposed pro forma reserve balance of $192.536

million.

- **Amortization Reserve**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED PRO FORMA AMORTIZATION RESERVE BALANCE, AS SHOWN ON SCHEDULE RJH-6.

A. Similar to the approach I have recommended for the depreciation reserve, the Company has determined its proposed pro forma amortization reserve balance as of 12/31/03 by taking the actual amortization reserve balance at 12/31/02 as the starting point and then adding its proposed Pro Forma Year annualized amortization expenses of $230,000. As shown on Schedule RJH-6, this proposed annual amortization amount consists of $109,000 for leasehold improvements and $121,000 for the 20-year amortization of the Manville acquisition adjustment.

Q. DO YOU RECOMMEND THAT AN ADJUSTMENT BE MADE TO THE COMPANY'S PROPOSED PRO FORMA AMORTIZATION RESERVE BALANCE?

A. Yes. For the reasons described earlier in this testimony, I have removed all aspects of the Manville acquisition adjustment for ratemaking purposes in this case. Therefore, my recommended annualized amortization expenses for the Pro Forma Year amount to $109,000 for the leasehold improvements and exclude any Manville acquisition adjustment amortization. In addition, the amortization reserve starting balance of $216,000 as of 12/31/02 includes $121,000 for prior accumulated Manville acquisition adjustment amortization expenses and I have also removed this portion of the 12/31/02 amortization reserve.

Adding the recommended annualized Pro Forma Year amortization expenses of $109,000 to the adjusted 12/31/02 amortization reserve starting balance of $95,000 results in a recommended pro forma amortization reserve balance of $204,000. This balance is $242,000 lower than the Company's proposed pro forma amortization reserve balance.

- <u>Materials & Supplies and Prepayments</u>

Q. PLEASE EXPLAIN THE RECOMMENDED ADJUSTMENT TO THE COMPANY'S PROPOSED MATERIALS & SUPPLIES AND PREPAYMENT BALANCES, AS SHOWN ON SCHEDULE RJH-3, LINES 7 AND 8.

A. The Company's proposed prepayment and materials & supplies balances represent the 13-month average balances for the Test Year 2002. The recommended prepayment and materials & supplies balances represent the average balances for the 12-month period ended October 31, 2003. These recommended balances must eventually be replaced by the average balances for the Pro Forma Year 2003.

- <u>Cash Working Capital</u>

Q. WHAT IS THE COMPANY'S PROPOSED POSITION WITH REGARD TO CASH WORKING CAPITAL IN THIS CASE?

A. The Company has proposed a cash working capital ("CWC") claim of $10.3 million. The only reference to this CWC claim in this case is contained in two sentences on page 37 of Mr. Prettyman's testimony:

> Cash working capital reflects the utilization of leads and lags applied to various operating expenses at supported rates. This method is consistent with that used in the Company's prior rate proceedings.

The calculations underlying the Company's proposed CWC claim of $10.3 are presented in summary format on P-2, Schedule 31, page 6.

Q. IS THE COMPANY'S CWC CLAIM SUPPORTED BY A CURRENT LEAD/LAG STUDY?

A. No. In RAR-A-11, the Company was asked to provide (1) a copy of the detailed lead/lag study, including supporting calculations for the revenue collection lag and all expense/tax payment lags summarized on P-2, Schedule 31, page 6, and (2) an explanation of the time period used to determine the lead/lag days shown on P-2, Schedule 31, page 6. In response, the Company could not produce the requested detailed lead/lag study. Instead, the Company provided another 1-page lead/lag study summary page used in its 1995 rate case.

The Ratepayer Advocate then issued RAR-A-75 as a follow-up request:

> The Company has not responded to what was requested in RAR-A-11. Please provide a copy of the detailed lead-lag study in support of the lag days presented on P-2, Schedule 31, page 6 (the RPA did not request the one-page lead/lag study summary from the 1995 rate case) and provide an explanation of the time period used to determine the lead-lag days shown on P-2, Schedule 31, page 6.

In response to this request, the Company stated:

> ….It appears that the original study was performed in 1978 and sponsored by Mr. Robert Hahne of Deloitte. Attached is a summary page indicating the lags. Revenues and Operating expenses are very close to the current numbers on Schedule 31. The lag for taxes however was 44.59, including FIT.

Thus, the Company, again, could not produce a detailed lead/lag study in support of the lead/lag summary page on P-2, Schedule 31, page 6. Instead, it provided another 1-page lead/lag study summary page that was apparently used in a rate case back around 1981. None of the revenue, expense and tax lead and lag days shown on this 1981 lead/lag summary page match the corresponding revenue, expense and tax lead and lag days presented in this case on P-2, Schedule 31, page 6.

Q. WHAT IS YOUR RECOMMENDATION BASED ON THIS INFORMATION?

A. After several requests, the Company could not produce a detailed lead/lag study with calculations and assumptions in support of the claimed revenue collection and expense/tax payment lags presented on P-2, Schedule 31, page 6. It appears that the leads and lags reflected on P-2, Schedule 31, page 6 have their basis in a lead/lag study performed back in 1978, or approximately 25 years ago. In short, the Company is claiming a CWC requirement in this case that is completely unsupported. I believe it would be inappropriate to base the estimated CWC requirement in this case on an original lead/lag study performed 25 years ago. For these reasons, I recommend that the Company's CWC claim of $10.3 million be rejected. Instead, I recommend that Your Honor and the Board reflect a CWC requirement of $0 for ratemaking purposes in this case. My recommendation is shown on Schedule RJH-3, line 9.

- **Deferred Income Taxes, Customer Advances and CIAC**

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO THE COMPANY'S PROPOSED DEFERRED INCOME TAXES, CUSTOMER ADVANCES AND CONTRIBUTION IN AID OF CONSTRUCTION ("CIAC") BALANCES, AS YOU SHOW ON SCHEDULE 3, LINES 11, 12, AND 13.

A. The Company's proposed rate base balances for these accounts are projected balances as of 12/31/03, the end of the Pro Forma Year. Consistent with my approach regarding plant in service, I have reflected the balances for these accounts as of October 31, 2003, the most recent actual balances available at this time. These balances must eventually be updated for actual balances as of 12/31/03 once this information has become available.

- **Consolidated Income Taxes**

Q. DOES THE BOARD HAVE A RATE MAKING POLICY WITH REGARD TO THE RATE MAKING TREATMENT OF TAX BENEFITS TO BE ASSIGNED TO REGULATED UTILITIES UNDER ITS JURISDICTION AS A RESULT OF THESE UTILITIES' FILING OF CONSOLIDATED INCOME TAX RETURNS?

A. Yes. The Board has an established policy requiring that any tax savings allocable to a utility as a result of the filing of consolidated income tax returns be reflected as a rate base deduction in the utility's base rate filings. The BPU first established this policy in its Decision and Order ("D&O") in the Atlantic City Electric Company rate proceeding, BPU

Docket No. ER90091090J, dated September 30, 1992. In this D&O, the Board also ruled that the calculation starting point for the consolidated income tax related rate base deduction must be July 1, 1990:

> ...it is our judgment that the appropriate consolidated tax adjustment in this proceeding is to reflect as a rate base deduction the total of the 1991 consolidated tax savings benefits, and one-half of the tax benefits realized from AEI's 1990 consolidated tax filing...
> ...This finding reflects a balancing of the interests to reflect the unique period of uncertainty during the period 1987-1991. We hereby reaffirm and emphasize that the Board's policy is to reflect an equitable and appropriate sharing of consolidated tax benefits for ratepayers in future rate proceedings.… [7]

The Board reaffirmed its consolidated income tax policy in its D&O in the Jersey Central Power and Light Company ("JCP&L") base rate proceeding, BPU Docket No. ER91121820J, dated February 25, 1993. On pages 7 and 8 of its D&O in that docket the BPU stated:

> The Board believes that it is appropriate to reflect a consolidated tax savings adjustment where, as here, there has been a tax savings as a result of the filing of a consolidated tax return. Income from utility operations provide the ability to produce tax savings for the entire GPU system because utility income is offset by the annual losses of the other subsidiaries. Therefore, the ratepayers who produce the income that provides the tax benefits should share in those benefits. The Appellate Division has repeatedly affirmed the Board's policy of requiring utility rates to reflect consolidated tax savings and the IRS has acknowledged that consolidated tax adjustments can be made and there are no regulations which prohibit such an adjustment.
>
> The issue, in this case, is not whether such an adjustment should be made, but, rather, what methodology should be used to make such an adjustment. In this area, the courts have held that the Board has the power and discretion to choose any approach which rationally determines a subsidiary utility's effective tax rate. Toms River Water Company v. New Jersey Public Utilities Commissioners, 158 NJ Super

[7] *I/M/O the Petition of Atlantic City Electric Company for Approval of Amendments to its Tariff to Provide for and Increase in Rates and Charges for Electric Service, Phase II,* BPU Docket No. ER90091090J, Order Adopting in Part and Modifying in Part the Initial Decision at 8 (Oct. 20, 1992).

> 57 (1978). Based on our review of the record in this case, the Board REJECTS the ALJ's recommendation to accept the income tax expense adjustment proposed by Petitioner and, instead, ADOPTS the position of Staff that the rate base adjustment is a more appropriate methodology for the reflection of consolidated tax savings. The rate base approach properly compensates ratepayers for the time value of money that is essentially lent cost-free to the holding companies in the form of tax advantages used currently and is consistent with our recent Atlantic Electric decision (Docket No. ER90091090J). Moreover, in order to maintain consistency with the methodology applied in the Atlantic decision, we modify the Staff calculation and find that a rate base adjustment which reflects consolidated tax savings from 1990 forward, including one-half of the 1990 savings, is appropriate in this case. [8]

Q. DOES EWC FILE A CONSOLIDATED INCOME TAX RETURN?

A. Yes. The Company files a consolidated federal income tax return with the parent company, E'town Corporation, and its other subsidiaries.

Q. HAS THE COMPANY IN PRIOR RATE CASES REFLECTED A RATE BASE DEDUCTION FOR CONSOLIDATED INCOME TAX SAVINGS IN ACCORDANCE WITH BOARD RATE MAKING POLICY AND CALCULATED IN ACCORDANCE WITH A BOARD-APPROVED METHODOLOGY?

A. Yes. Two rate cases ago, in BPU Docket No. WR95110557, the Company's filing reflected a rate base deduction for the consolidated income tax benefits accumulated by EWC through the year 1994. The Company made similar consolidated income tax rate base deductions in earlier rate cases. In the prior rate case, BPU Docket No. WR01040205, the Company, in response to RAR-A-46 in that case, provided the rate base deduction

[8] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions,* BRC Docket No. ER91121820J, Final Decision and Order Accepting in Part and Modifying in Part the Initial Decision at 7-8 (June 15, 1993).

amount from EWC's actual consolidated income tax savings accumulated through the year 2000, calculated in accordance with the Board-approved methodology. This information showed that this rate base deduction number amounted to $5,065,000 for the cumulative consolidated tax savings actually incurred by EWC through the year 2000.

Q. HAVE YOU CALCULATED THE APPROPRIATE CONSOLIDATED INCOME TAX RATE BASE DEDUCTION ADJUSTMENT TO BE APPLIED TO EWC FOR RATE MAKING PURPOSES IN THIS CASE IN ACCORDANCE WITH THE METHODOLOGY PREVIOUSLY ESTABLISHED BY THE BPU?

A. I requested these calculations from the Company in data request RAR-A-15 in this case:

> Request:
> In the prior EWC rate case, the Company prepared and submitted a consolidated income tax benefit study showing consolidated income tax information for EWC from 1990 through 2000 (with the actual consolidated income tax results for 1999 and 2000 restated to remove the effect of the merger with Thames), indicating a total cumulative EWC Consolidated Tax benefit rate base deduction amount of $5.065 million as of the year 2000. Please extend this analysis showing the exact same cumulative EWC Consolidated Tax benefit rate base deduction amounts for the years 1990 through 2002. Provide this in the same format and detail as per the Company's response to RAR-A-46 in the prior EWC rate case.

The Company performed these requested consolidated income tax calculations in its response to RAR-A-15. As shown in this response, the cumulative consolidated income tax benefit allocated to EWC from July 1, 1990 through December 31, 2002 amounts to $4.857 million.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THIS CONSOLIDATED INCOME TAX ISSUE?

A. As shown on Schedule RJH-3, line 15, I recommend that the Company's rate base in this case be reduced by the cumulative consolidated income tax benefit amount of $4.857 million. The calculation method for this cumulative consolidated income tax benefit amount and the recommended ratemaking treatment are consistent with previously established Board policy.

- **Self-Insurance Reserve Balance**

Q. WHY DO YOU RECOMMEND A RATE BASE DEDUCTION FOR THE SELF-INSURANCE RESERVE, AS SUMMARIZED ON SCHEDULE RJH-3, LINE 16?

A. As confirmed in the response to RAR-A-16, the Company has been building up a self-insurance reserve fund for which the cumulative balance as of 7/31/03 (the most recent available actual balance) is $1.122 million. This reserve was built up by accruing an annual self-insurance expense amount and charging the expense to this reserve account. This self-insurance expense accrual amount has always been, and still is, treated as an above-the-line expense for ratemaking purposes. In the current case, the Company has again included a self-insurance expense accrual amount of $330,000 in its Pro Forma Year operating expenses.[9] Page 32 of the Company's 2001 and 2002 Annual Reports to the BPU show that the self-insurance reserve was at a level of $944,247 as of 12/31/01 and grew to $1,039,116 as of 12/31/02. As mentioned earlier, the reserve balance has further

[9] See the workpapers for P-2, Schedule 15 – Insurance Expenses.

increased to $1,121,828 as of 7/31/03.

This self-insurance reserve fund represents cost-free, non-investor supplied capital paid for by the ratepayers through prior and current rate inclusions of the self-insurance reserve accruals. These accrued reserve funds are available to EWC on a continuous basis for general working capital purposes. Similar to customer deposits and customer advances, a representative level of this balance must therefore be treated as a rate base deduction. Schedule RJH-7 shows that, net of associated prepaid deferred taxes, the net rate base deduction for the insurance reserve balance as of 7/31/03 amounts to $729,000. This net-of-tax balance should be updated for the actual net-of-tax self-insurance reserve balance as of 12/31/03 once this information has become available.

C. OPERATING INCOME

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED PRO FORMA OPERATING INCOME, THE METHOD EMPLOYED BY THE COMPANY TO DETERMINE ITS PRO FORMA OPERATING INCOME, AND THE RECOMMENDED OPERATING INCOME ADJUSTMENTS.

A. The Company has proposed a total pro forma after-tax operating income amount of $37.642 million. In deriving this pro forma income level, the Company projected its pro forma operating revenues based on projected levels of customers as of December 31, 2003 and incorporating numerous assumptions regarding normalized consumption levels for each of the various customer classes. The Company's proposed depreciation expenses were determined by applying its currently approved depreciation rates to its projected depreciable plant level as of June 30, 2004. The proposed pro forma O&M expenses were determined by taking the unadjusted test year O&M expenses from the 2002 Test Year as the starting point and then adjusting these Test Year expense levels for changes during and after the Pro Forma Year 2003 that were deemed to be known and measurable. Generally, the same approach was used by the Company to determine its pro forma revenue taxes and other taxes. The Company's proposed income taxes were determined by taking the proposed net operating income (before income taxes) as the starting point, then deducting pro forma interest expenses through the "interest synchronization" method and applying the statutory FIT rate of 35% .

As shown on Schedule RJH-8, I have recommended a large number of operating income adjustments with the effect of increasing the Company's proposed pro forma after-tax operating income by a total amount of $4.048 million to a recommended pro forma operating income level of $41.690 million. Each of these recommended operating income adjustments will be discussed in detail below.

- **<u>Other Operating Revenues</u>**

Q. WHAT ARE ANTENNA REVENUES AND WHAT ARE THE CURRENT AND RECENT HISTORIC ANNUAL ANTENNA REVENUE LEVELS?

A. Antenna revenues represent rent revenues collected by the Company for the use of its water tanks and other utility property as mounting devices for antennas used by wireless communication companies. The Company's actual historic antenna revenues since 1996 have been as follows:

1996	$272,225
1997	$286,818
1998	$456,898
1999	$602,088
2000	$633,732
2001	$854,514
2002	$851,349

As confirmed in its response to RAR-A-35, for the Pro Forma Year 2003, the Company expects annualized antenna revenues of $1,076,243.

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE RATE TREATMENT FOR ITS ANTENNA REVENUES?

A. Since the Company has not treated these revenues as an above-the-line offset to the revenue requirement in this case, it is apparently the Company's position that its stockholders, not the ratepayers, are entitled to these revenues.

Q. DO YOU AGREE WITH THE COMPANY'S POSITION ON THIS MATTER?

A. No, I do not. Antenna revenues can only be realized by the Company by virtue of the water tanks and other utility property upon which the antennas are installed. These utility properties are included in rate base and the ratepayers, therefore, pay for all of the return requirements on these utility assets, as well as the O&M expenses, depreciation expenses and property taxes associated with the operation of these utility properties. All of these costs create a revenue requirement and, if rent revenues can be realized from these rate base properties, these revenues should be used to partly offset the revenue requirements. The remaining revenue requirements will be funded with rates to be collected from the ratepayers, not the shareholders.

The recommended above-the-line treatment of these antenna revenues is consistent with the rate treatment of such revenue set forth by the Board in a recent Order. *See I/M/O the Petition of Gordon's Corner Water Company*, BPU Docket No. WR00050304 (July 12, 2001). In addition, in all of the recent water rate proceedings in New Jersey where antenna revenues were identified as a specific revenue source, such revenues have been treated above-the-line for rate making purposes.

In summary, I recommend that the Company's Pro Forma Year annualized antenna revenues be treated as an above-the-line revenue source. As shown on Schedule RJH-9, line 2, this recommendation increases EWC's proposed Pro Forma Year operating revenues by approximately $1.076 million.

Q. HAVE YOU MADE ANOTHER ADJUSTMENT TO THE COMPANY'S PROPOSED OTHER OPERATING REVENUES?

A. Yes. For ratemaking purposes in this case, the Company has reflected the Other Operating revenues of $66,511 it actually booked in the 2002 test year. As confirmed in the response to RAR-A-65, the more updated actual Other Operating Revenue level for the most recently available 12-month period ended 6/30/03 amounts to $95,668, while the expected revenue level for the year 2003 based on 8 months of actual and 4 months of projected data amounts to $108,137. Since this latter revenue amount represents the Company's expected revenue level for the Pro Forma Year, I recommend that this revenue level be reflected for ratemaking purposes in this case rather than the Company's proposed test year revenues. As shown on Schedule RJH-9, line 1, my recommendation increases the Company's proposed Other Operating Revenues by approximately $41,000.

- Payroll Expense

Q. DO YOU RECOMMEND THAT ADJUSTMENTS BE MADE TO THE COMPANY'S PROPOSED PRO FORMA PAYROLL EXPENSES IN THIS CASE?

A. Yes. As summarized on Schedule RJH-11, page 1, I recommend that two adjustments be made to the Company's proposed pro forma payroll expenses. First, I recommend the removal of all incentive compensation and bonus expenses from the Company's proposed Pro Forma Year payroll expenses. Second, I recommend a payroll adjustment to remove vacant positions included in EWC's proposed Pro Forma Year employee level.

Q. HOW DO THESE TWO RECOMMENDED PAYROLL ADJUSTMENTS IMPACT THE COMPANY'S PROPOSED PRO FORMA YEAR OPERATING EXPENSES?

A. As shown on Schedule RJH-11, page 1, my two recommended payroll expense adjustments decrease the Company's proposed Pro Forma Year payroll expenses charged to O&M by $1.739 million.

Q. WHAT IS THE COMPANY'S PROPOSED POSITION IN THIS CASE WITH

REGARD TO INCENTIVE COMPENSATION EXPENSES?

A. The Company is proposing to charge its ratepayers with approximately $830,000 worth of incentive compensation expenses. The Company's pro forma payroll workpapers and the response to RAR-A-26 show that of this total expense amount of $830,000 an amount of approximately $274,000 represents annual lump sum bonuses that are paid out to employees not eligible to participate in the management incentive compensation program, while the remaining $556,000 represents Management Incentive Plan compensation. The breakdown of this latter Management Incentive Plan compensation expense of $556,000 by management category is as follows:

President	$ 90,000
Vice Presidents	$143,000
Directors	$135,000
Managers	$163,000
Supervisors	$ 25,000
Total	$556,000

Q. WHAT HAS BEEN THE HISTORY CONCERNING THESE INCENTIVE COMPENSATION EXPENSES?

A. As shown in the response to RAR-A-26, the incentive compensation expenses incurred by the Company in the last 3 years and as proposed for the Pro Forma Year in this case amount to the following annual levels:

2000	$431,600
2001	$605,200
2002	$693,500
Pro Forma in this Case	$830,015

Thus, the Company's proposed pro forma incentive compensation of $830,000 in this case is approximately 44% higher than the average incentive compensation level awarded in the prior 3-year period and is 20% higher than the actual incentive compensation paid out in the 2002 test year.

Q. ARE THE COMPANY'S PROPOSED INCENTIVE COMPENSATION AWARDS A FUNCTION OF CORPORATE FINANCIAL PERFORMANCE INDICATORS?

A. Yes. As shown in the Management Incentive Plan guidelines included in the response to RAR-A-26, the awards paid out under the Company's Management Incentive Compensation plan are partially a function of corporate financial performance, such as Return on Equity.

Q. IS INCENTIVE COMPENSATION AWARDED TO THE ELIGIBLE RECIPIENTS IN ADDITION TO THEIR "REGULAR" COMPENSATION?

A. Yes. The incentive compensation and lump sum bonuses paid to the Company's non-union employees in addition to their current "regular" compensation. It should be noted that this "regular" wage/salary compensation has experienced steady increases from year to year. The response to RAR-A-38 shows that the following average wage/salary increases were received by EWC's non-union employees during the last 6 years:

1998	4.00 %
1999	3.25%
2000	3.00 %
2001	4.00 %
2002	4.08 %
2003	3.00 %

Q. DO THE PROPOSED PRO FORMA WAGES AND SALARIES INCLUDE INCREASES FOR THE COMPANY'S NON-UNION EMPLOYEES?

A. Yes. The Company has reflected wage and salary increases for its non-union employees of 3% effective in early 2004 and has annualized the impact of these increases on the Pro Forma Year results.

Q. BASED ON THE PREVIOUSLY DISCUSSED INFORMATION, WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE RATE TREATMENT FOR THE INCENTIVE COMPENSATION EXPENSES PROPOSED BY THE COMPANY IN THIS CASE?

A. I recommend that the Company's proposed pro forma incentive compensation expenses of approximately $830,000 be disallowed for rate making purposes in this case. First, the criteria for determining the awards to be paid out under the Management Incentive plan are partially a function of corporate financial performance such as Return on Equity. The Company's shareholders are the primary beneficiaries of such corporate financial performance improvements by virtue of the resulting increases in their stock value or dividend receipts. For that reason, the Company's stockholders should be made responsible for these discretionary costs.

Second, given the base wage/salary increases that have already been received by the employees eligible for incentive compensation in the recent past through 2003, and given that the current rate case already includes an additional projected 3% wage/salary increases, I do not believe it reasonable and appropriate to saddle the ratepayers with an additional amount of $830,000 for incentive compensation.

Third, the Company has not presented any evidence in this case showing the specific benefits that are accruing to the ratepayers as opposed to the Company's shareholders as a result of these incentive compensation and bonus plans for which these same ratepayers are asked to pay 100% of the costs. Neither has the Company presented any evidence in this case showing that there is any appreciable difference in the productivity level of EWC's employees as a direct result of the incentive compensation paid out by the Company.

Fourth, I believe that the large increase in incentive compensation proposed by the Company in this case should concern Your Honor and the Board. As previously discussed, the Company is proposing to increase its pro forma incentive compensation in this case by more than 20% over the incentive compensation levels paid out in the 2002 test year. If Your Honor and the Board were to give rate recognition to the pro forma expense level requested by the Company in this case, this would provide very little, if any, incentive for EWC to minimize or contain these incentive compensation expenses.

Q. DOES THE BOARD HAVE A STATED RATE MAKING POLICY WITH REGARD TO THE RATE TREATMENT OF INCENTIVE COMPENSATION?

A. Yes. In its Final Decision and Order in the Jersey Central Power & Light Company rate case, Docket No. 91121820J, dated February 25, 1993, the Board stated on page 4 of this Decision and Order:

> We are persuaded by the arguments of Staff and Rate Counsel that, at this

> time, the incentive compensation or "bonus" expenses should not be recovered from ratepayers. The current economic condition has impacted ratepayers' financial situation in numerous ways, and it is evident that many ratepayers, homeowners and businesses alike, are having difficulty paying their utility bills or otherwise remaining profitable. These circumstances as well as the fact that the bonuses are significantly impacted by the Company achieving financial performance goals, render it inappropriate for the Company to request recovery of such bonuses in rates at this time. Especially in the current economic climate, ratepayers should not be paying additional costs to reward a select group of Company employees for performing the job they were arguably hired to perform in the first place. [10]

Q. DID THE BOARD REITERATE THIS INCENTIVE COMPENSATION RATE MAKING POLICY IN A MORE RECENT LITIGATED BASE RATE CASE?

A. Yes. In the recently completed fully-litigated 2001 Middlesex Water Company base rate case, the BPU Staff stated on page 37 of its Initial Brief with regard to Middlesex's incentive compensation expenses:

> Staff is persuaded by the arguments of the RPA that, at this time, the incentive compensation expenses should not be recovered from ratepayers. According to the record, incentive compensation expenses have tripled since 1995. In addition, the record also indicated that the bonuses are significantly impacted by the Company achieving financial performance goals. These facts lend strength to the RPA's position that it is inappropriate for the Company to request recovery of bonuses in rates at this time.

While the ALJ in that case ruled that 50% of Middlesex's incentive compensation expenses could be recovered in rates, the Board overruled the ALJ and ordered that 100% of these incentive compensation expenses be removed from Middlesex's rates. [11]

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[10] *I/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions,* BRC Docket No. ER91121820J, Final Decision and Order Accepting in Part and Modifying in Part the Initial Decision at 4 (June 15, 1993).

[11] *I/M/O the Petition of Middlesex Water Company for Approval of an Increase in Rates for Water Service and Other Tariff Changes,* BPU Docket No. WR00060362, Order Adopting in Part/Modifying in Part/Rejecting in Part/ Initial Decision at 25-26 (June 6, 2001).

Q. WHAT LEVEL OF EMPLOYEES HAS THE COMPANY ASSUMED TO PRICE OUT ITS PROPOSED PRO FORMA PAYROLL COST IN THIS CASE?

A. As described on pages 22 and 23 of Mr. Prettyman's testimony and shown on the response to SIR-27, the Company has priced its proposed payroll cost out based on 447 full-time and 8 part-time employees.

Q. HOW DOES THIS COMPARE TO THE COMPANY'S RECENT HISTORIC AND CURRENT ACTUAL LEVEL OF FULL-TIME EQUIVALENT EMPLOYEES?

A. The Company's recent historic and current actual level of employees is presented in the response to RAR-A-39, the results of which are summarized below:

	Total Employees	Full-Time Employees
- 2001 Monthly Average	425	416
- 2002 Monthly Average	430	421
- 2003, January	436	427
February	433	425
March	433	426
April	432	425
May	433	426
June	436	430
July	435	429
August	435	429
September	435	429

As evidenced from the above table, the Company's level of employees increased from a monthly average of 425 in 2001 to monthly averages of 430 in 2002 and 434 during the first 9 months of 2003. The most recent actual level of employees seems to have stabilized around 429.

The difference between the Company's proposed 447 full-time employee level and the lower recent historic and current actual full-time employee levels represents vacancies.

Q. DO UTILITIES USUALLY CARRY VACANT POSITIONS?

A. Yes. It is not at all unusual that utilities carry vacant positions. Some of these vacant positions are eventually filled but at that same time other position may vacate again, the end result being that the utility, on a continuous basis, will always have a number of vacant positions. In many instances, such vacancies represent "wish list" positions, i.e., positions that utility department heads would like to have filled, but are not quite necessary to optimally run the business. In that regard, the responses to RAR-A-13 in the Company's prior case and RAR-A-40 in the current case indicate that EWC continuously carries vacancies from year to year:

	Actual Vacant Positions
1996	21
1997	21
1998	4
1999	2
2000	22
2001	4
2002	20
7/31/03	26

Q. WHAT IS YOUR RECOMMENDATION BASED ON THE FOREGOING FINDINGS?

A. I believe that the Company's proposed pro forma full-time employee level of 447 is overstated and should be rejected by Your Honor and the Board. Instead, I recommend that the Company's pro forma full-time employee payroll be based on the current actual full-time employee level of 429.

Q. HOW DID YOU QUANTIFY YOUR RECOMMENDED EMPLOYEE LEVEL ADJUSTMENT?

A. In RAR-A-42, I requested that the Company provide the pro forma annualized payroll for the specific employee positions that were included in its proposed level of 447 full-time employees but are not on the Company's payroll at this time. In its response, the Company referred back to its response to RAR-A-40 in which it stated:

> As a result of the common ownership between EWC, MHWC and NJAWC, certain operating combinations are being implemented and, therefore, it is very difficult to list by position for each vacancy. The impact of labor savings is included in the Synergy Study, [P-2] Schedule 21.

In short, the Company could not, and did not, provide the annualized payroll included in its proposed Pro Forma Year labor expenses for the employee positions that are currently vacant. I was therefore forced to make my own calculations which I show on Schedule RJH-11, page 2. First, I determined the average payroll per full-time employee by dividing the total number of full-time employees into the total regular and overtime payroll for all full-time employees. I determined this to be $66,708. Next, I applied this average full-time employee payroll number to my recommended full-time employee level adjustment of 18 positions (447 vs. 429) to arrive at the recommended full-time employee payroll cost adjustment of $1,200,736.

Q. DOES THE CURRENT ACTUAL NUMBER OF FULL-TIME EMPLOYEES OF 429 WHICH YOU HAVE REFLECTED IN THIS CASE ALREADY REFLECT

ANY OF THE SYNERGY SAVINGS IMPACT FROM THE COMMON OWNERSHIP OF EWC, MHWC AND NJAWC?

A. I do not think so, and it certainly is not reflected in the actual employee level trend that was summarized in the earlier table which is again shown below:

	Total Employees	Full-Time Employees
- 2001 Monthly Average	425	416
- 2002 Monthly Average	430	421
- 2003, January	436	427
February	433	425
March	433	426
April	432	425
May	433	426
June	436	430
July	435	429
August	435	429
September	435	429

The data above indicate that the Company's employee levels actually *increased* from an average of 425 in 2001 to an approximate current level of 435. The fact that the Company's current employee level has not yet decreased as a result of synergies from the common ownership with MHWC and NJAWC is not surprising given that the RWE acquisition of NJAWC was not finalized until the second quarter of 2003 and such events as the consolidation of EWC's, MHWC's and NJAWC's headquarters did not take place until October 20, 2003.

Thus, my recommended adjustment to reduce the Company's proposed projected 447 full-time employees by 18 employees to reflect the current actual level of 429 full-time employees should <u>*not*</u> take the place of the Company's proposed synergy savings employee reduction presented on filing exhibit P-2, Schedule 21. The current full-time employee level of 429 does not yet reflect any synergy savings. It should be considered the starting point from which the synergy savings should then be subtracted.

Q. IS THERE OTHER INFORMATION AVAILABLE WHICH, IN YOUR OPINION, SHOWS THAT THE COMPANY'S PROPOSED PRO FORMA PAYROLL COSTS IN THIS CASE ARE UNREASONABLY HIGH DUE TO THE INFLATED LEVEL OF EMPLOYEES?

A. Yes. The Company's total pro forma payroll proposed in this case as compared to the actual total payroll in the recent past is as follows:

	Total Payroll
1999	$24,859,682
2000	$25,016,375
2001	$26,183,750
2002	$26,191,500
Pro Forma in this Case	$30,102,293

The Pro Forma payroll of $30,102,293 proposed for rate recognition by EWC in this case represents an increase of about 15% over the actual 2002 test year payroll. On the other hand, my recommended pro forma payroll in this case amounts to $28,071,000 (see Schedule RJH-11, page 1, line 4). This represents a more reasonable 7% increase over the actual 2002 test year payroll.

Q. HOW DID THE COMPANY'S PROPOSED PRO FORMA PAYROLL REQUESTED IN ITS PRIOR RATE CASE COMPARE TO THE ACTUAL PAYROLL EXPERIENCED DURING THE RATE EFFECTIVE PERIOD OF THE PRIOR CASE?

A. In the prior case, the Company requested rate recovery for projected pro forma payroll costs of $27,619,287. In actuality, the Company actual payroll costs for the 2002 test year amounted to $26,191,500 and the Company's total labor costs for 2003 are expected to amount to $26,174,000.[12] Thus, it turned out that the Company over-projected the payroll costs claimed for rate inclusion in the prior case by a factor of almost 5.5% over the actual payroll costs experienced during the prior case rate effective period.

- **Employee Benefit Expenses**

Q. WHY HAVE YOU ADJUSTED THE COMPANY'S PROPOSED EMPLOYEE BENEFIT EXPENSES, AS SHOWN ON SCHEDULE RJH-12?

A. As described on page 23 of Mr. Prettyman's testimony, the Company determined its proposed pro forma medical expenses by considering its 2002 medical expense premiums "plus an estimate of 15% increase for 2003 rates." At this time, the actual 2003 premium rates have become available. As shown in footnote (2) of Schedule RJH-12, I have recalculated the Company's proposed pro forma medical expenses in this case based on the actual 2003 premium information contained in the response to SRR-20. These recommended updated pro forma medical expenses amount to $4.76 million, or $45,000

[12] See response to SRR-3.

lower than the Company's estimated pro forma medical expenses of $4.805 million.

The Company determined its proposed pro forma pension and post-retirement benefit expenses in this case based on estimates from its actuary regarding the 2003 costs. The actual actuary-determined pension and post-retirement benefit costs for 2003 have now become available. I have updated the Company's proposed pro forma pension and post-retirement benefit expenses based on the actual 2003 cost information contained in the response to RAR-A-47. As shown on Schedule RJH-12, lines 4 and 6, the recommended updated pro forma pension expenses are $66,000 lower and post-retirement benefit expenses are $273,000 higher than the corresponding pro forma expenses proposed by the Company.

In summary, the net impact of the recommended adjustments to the Company's overall employee benefit expenses is an expense increase of $162,000.

- Power Expenses

Q. PLEASE DESCRIBE THE RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED PRO FORMA POWER EXPENSES, AS SHOWN ON SCHEDULE RJH-13.

A. In its response to RAR-A-50, the Company revised its proposed pro forma power expenses based on the actual PSE&G rate changes granted on August 1, 2003. As indicated in the response to RAR-A-50, the required revisions reduce the power cost per MG for all treatment plants from $100.74 to $94.83 and the power cost per MG for all wells and boosters from $65.86 to $64.03. On Schedule RJH-13, I have calculated that these power cost revisions result in an overall reduction of $369,342 in EWC's proposed pro forma power expenses in this case.

- **Residual Disposal Expenses**

Q. WHAT IS THE COMPANY'S PROPOSED POSITION IN THIS CASE WITH REGARD TO RESIDUAL DISPOSAL EXPENSES?

A. As shown on filing exhibit P-2, Schedule 11, the Company has determined that the appropriate annual pro forma residual disposal expenses amount to approximately $661,000. In addition to this annual recurring expense amount, the Company also proposes to amortize over a 3-year period certain deferred residual disposal costs incurred in 2001 and 2002. This annual deferred cost amortization amounts to approximately $231,000. Thus, the Company is proposing total residual disposal costs of $892,000 in this case.

Q. HOW WERE THE RESIDUAL DISPOSAL COSTS INCLUDED IN RATES IN THE COMPANY'S PRIOR RATE CASE DETERMINED?

A. In the Company's prior rate case, BPU Docket No. WR01040205, pro forma annual residual disposal costs of $667,000 were allowed for ratemaking purposes. As shown on filing exhibit P-2, Schedule 11 of the Company's prior case, this pro forma residual disposal cost level of $667,000 was determined by taking the average of the actual annual residual disposal costs in 1999 ($748,881), 2000 ($591,548) and 2001 ($660,600).

Q. BASED ON THE PREVIOUSLY DESCRIBED FACTS, DO YOU AGREE WITH THE COMPANY'S PROPOSAL WITH REGARD TO RESIDUAL DISPOSAL COSTS IN THE CURRENT CASE?

A. No. First, the Company is inappropriately proposing to charge the ratepayers for residual disposal costs determined based on a combination of the "deferral and amortization" method and the "normalized annual recurring expense" method. The Company's proposed approach incorrectly double-counts for residual disposal costs. Second, in the prior case, the Company received rate recognition for an annual residual disposal cost level of $667,000 and this expense allowance, in fact, appears to be higher than the actual residual disposal costs incurred by EWC during 2002 and 2003. Thus, the Company was more than reimbursed in rates for its actual disposal costs through 2003. It would therefore be incorrect and inappropriate for the Company to propose to charge the ratepayers on a going forward basis for deferred disposal costs incurred through 2003, as it has done on P-2, Schedule 11 of this case.

Q. WHAT IS YOUR RECOMMENDATION BASED ON THE PREVIOUSLY DESCRIBED FINDINGS AND CONCLUSIONS?

A. As shown on Schedule RJH-14, I recommend rate recognition for an annual pro forma residual disposal expense amount of $661,000. The Company's proposal to additionally reflect the amortization of prior deferred residual costs should be rejected by Your Honor and the Board. My recommendation reduces the Company's proposed Pro Forma Year operating expenses by $231,000.

- **Deferred Purchased Water Expenses**

Q. DOES THE COMPANY CURRENTLY HAVE A PURCHASED WATER ADJUSTMENT CLAUSE ("PWAC") IN EFFECT?

A. No. The Company's PWAC expired at the conclusion of EWC's 1995 rate case in BPU Docket No. WR95110557 for which rates became effective in 1996. After that case, the Company apparently made a conscious decision not to apply for another PWAC. The Company confirms this information in its response to RAR-A-53:

> There is currently no PWAC in effect. The last PWAC was included in base rates effective in 1996…

Q. DESPITE THE FACT THAT THE COMPANY HAS HAD NO PWAC IN EFFECT SINCE 1996, IS THE COMPANY MAKING A DEFERRED PURCHASED WATER EXPENSE CLAIM IN THIS CASE AS IF A PWAC WERE IN EFFECT?

A. Yes. As discussed on page 25 of Mr. Prettyman's testimony, the Company's experienced a rate increase effective July 1, 2003 for the purchased water contract with the New Jersey Water Supply Authority (NJWSA). The Company is deferring the difference between these higher actual NJWSA purchased water costs and the NJWSA purchased water cost allowance included in the Company's current rates incurred from July 1, 2003 to June 30, 2004. The total deferred under-recovered purchased water cost so determined by the Company as of June 30, 2004 amounts to $228,174. As shown on filing exhibit P-2, Schedule 12, the Company is proposing in this case to amortize this deferred purchased water cost to the ratepayers over a 3-year period, resulting in an annual deferred purchased water cost amortization of approximately $76,000. In this regard, Mr. Prettyman states on page 25 of his testimony:

> The PWAC adjustment on [P-2] Schedule 12 reflects the cumulative under recovered purchased water costs as of June 30, 2004, the estimated effective date of new rates in this case.

Q. DO YOU AGREE WITH THIS PROPOSED RATEMAKING APPROACH?

A. No. First, I should note that Mr. Prettyman's reference to this deferred purchased water expense adjustment as a "PWAC adjustment" is incorrect and somewhat misleading. As explained earlier, since 1996 the Company chose to eliminate its PWAC mechanism, so no PWAC was, or will be, in effect from July 1, 2003 to June 30, 2004. What the Company is proposing here represents inappropriate single-issue ratemaking applied on a retro-active basis. Rates are set on a forward-looking basis based on the best information available in a rate case and, absent the existence of a reconcilable adjustment clause, are not to be compared and reconciled with actual experience during the rate effective period. Even if this practice for some reason *were* to be allowed, it would be wrong to consider just this one expense item without considering the differences between actual experience and rate allowance for all other expense components as well as for all revenue, rate base, capital structure and capital cost components.

In summary, for the foregoing reasons, I recommend that the Company's proposal to amortize these deferred purchased water expenses in this case be rejected by Your Honor and the Board.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION ON THE COMPANY'S PROPOSED PRO FORMA YEAR OPERATING EXPENSES?

A. As shown on Schedule RJH-10, line 6, my recommendation reduces the Company's proposed Pro Forma Year purchased water expenses by $76,000

- **<u>Tank Painting Expenses</u>**

Q. WHAT IS THE COMPANY'S PROPOSAL IN THIS CASE WITH REGARD TO TANK PAINTING EXPENSES?

A. Based on an assumption that all of its tanks should be painted over a 20-year period, the Company has estimated what it would cost to paint all of its tanks over the next 20 years and then divided this total estimated cost amount by 20 to arrive at its proposed "normalized" annual tank painting amount of approximately $768,000. The Company additionally proposes a balancing account that will defer the difference between the proposed annual recovery amount of $768,000 and the actual annual tank painting expenses. Any tank painting expense deferrals in this balancing account would then be charged or credited to the ratepayers in the Company's next base rate case. In other words, the Company is essentially proposing the establishment of a reconcilable adjustment clause for its tank painting expenses.

Q. WERE THE TANK PAINTING COST ESTIMATES BASED ON ACTUAL TANK PAINTING CONTRACTS OR BIDS FROM OUTSIDE CONTRACTORS?

A. No. The Company did not base its cost estimates on actual painting contracts or competitive tank painting bids from outside tank painting contractors to prepare each of the tank painting expense estimates in the normalized 20-year cycle. As described on page 26 of Mr. Prettyman's testimony, all of the tank painting cost estimates underlying the Company's proposed normalized expense amount of $768,000 were "based upon painting all of the tanks (inside and exterior) times a cost per square foot provided by the tank painting inspector."

Q. WHAT HAVE BEEN THE COMPANY'S ACTUAL TANK PAINTING EXPENSES IN THE RECENT PAST?

A. The table below shows the Company's actual tank painting expenses since 1991, the earliest year for which tank painting costs are available:[13]

	Tank Painting Expense
1991	$ 0
1992	268,660
1993	34,345
1994	249,292
1995	0
1996	63,155
1997	0
1998	0
1999	0
2000	0
2001	0
2002	0
2003	0
13-Year Average (rounded)	$50,000

[13] Source: response to RAR-A-57

Q. WHAT LEVEL TANK PAINTING EXPENSES DID THE COMPANY CLAIM IN ITS PRIOR RATE CASE AND HOW DO THESE EXPENSES COMPARE TO THE ACTUAL TANK PAINTING EXPENSES INCURRED BY THE COMPANY SINCE THE CONCLUSION OF THE PRIOR CASE?

A. In the prior rate case, the Company claimed that it would incur tank painting expenses of $86,500 in 2002. As shown in the table above, the Company did not incur any tank painting expenses in 2002 or 2003.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED NORMALIZED TANK PAINTING EXPENSE LEVEL OF $768,000?

A. I do not agree with the Company's proposed annual normalized tank painting expense level of $768,000 and the associated balancing account rate mechanism and I recommend that the Company's entire tank painting rate treatment approach proposed in this case be rejected by Your Honor and the Board. I believe the Company's proposed normalized annual tank painting expense level is based on unreliable and unproven projections and cannot be considered known and measurable in this case. Moreover, the proposed annual expense level of $768,000 seems unrealistically high and is not supported by recent historic annual tank painting experience. As evidenced from the above table, the claimed annual recurring expense level of $768,000 is more than 15x as high as the actual average annual tank painting expense level of approximately $50,000 during the most recent 13-year period and is almost 3x higher than the most expensive tank painting year (1992: $269,000) experienced by EWC in this 13-year period. In addition, history has shown that the Company's tank painting projections turn out to be significantly overstated.

Q. BASED ON THE FOREGOING FINDINGS AND CONCLUSIONS, WHAT PRO FORMA ANNUAL TANK PAINTING EXPENSE LEVEL ARE YOU RECOMMENDING FOR RATEMAKING PURPOSES IN THIS CASE?

A. As evidenced from the above table, the Company's actual historic tank painting expenses since 1991 have averaged around $50,000 per year. Since this average spans a period going back to 1991, and since I believe that a future tank painting expense allowance of $50,000 is unreasonably low, I have tripled this actual historic average expense amount. Thus, I recommend that the Company be allowed annual tank painting expenses of $150,000 for ratemaking purposes in this case.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION ON THE COMPANY'S PROPOSED PRO FORMA OPERATING EXPENSES?

A. As shown on Schedule RJH-10, line 7, my recommendation reduces the Company's proposed pro forma operating expenses by $618,000.

- <u>Rate Case Expenses</u>

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED RATE CASE EXPENSES TO BE RECOGNIZED FOR RATE MAKING PURPOSES IN THIS CASE.

A. The Company's proposed rate case expenses are detailed in the first column of Schedule RJH-15. The Company has estimated a total expense level of $300,000 for the current case, consisting of $250,000 for outside counsel, $30,000 for its rate of return study and

$20,000 for miscellaneous expenses. The Company proposes to allocate 100% of this proposed rate case expense to the ratepayers and amortize this expense over a 3-year period for an annual amortization expense of $100,000.

Q. DO YOU RECOMMEND ADJUSTMENTS TO THE COMPANY'S PROPOSED RATE CASE EXPENSE APPROACH IN THIS CASE?

A. Yes. While the Company has proposed to charge 100% of the rate case expenses in this case to the ratepayers, I have reflected a 50/50 sharing of the rate case expenses between the Company's stockholders and ratepayers. This sharing is based on a long-standing and well-established rate making policy of the Board. This policy was recently confirmed in a Board Order involving Pennsgrove Water Supply Company's rate case in Docket No. WR98030147 where the Board stated on page 12 of this Order:

> Having reviewed the entire record in this matter, the Board ADOPTS the ALJ'S recommendation. In recognition of the argument that stockholders benefit from a rate proceeding, it has been the policy of the Board to utilize 50 - 50 sharing of rate case expenses for larger utilities, including water utilities. In addition, the Board notes that, in this case, since Petitioner's revenues have exceeded one million dollars in each of the last three years (companies with revenues of one million dollars or more are generally classified as Class A water companies), the Board FINDS a 50 - 50 sharing to be appropriate in this matter.[14]

The Company has not provided any evidence in this case for the BPU to deviate from this rate making policy.

Q. WHAT IS THE RECOMMENDED ANNUAL RATE CASE EXPENSE

[14] *I/M/O the Petition of Pennsgrove Water Supply Company for an Increase in Rates for Water Service,* BPU Docket

AMORTIZATION THAT SHOULD BE ADOPTED BY YOUR HONOR AND THE BOARD IN THIS PROCEEDING?

A. Schedule RJH-15 shows that, based on the recommended position previously described, Your Honor and the Board should adopt an annual rate case expense amortization level of $50,000. This recommendation decreases the Company's proposed Pro Forma Year operating expenses by $50,000.

- **Research Foundation Expenses**

Q. WHAT IS THE COMPANY'S PROPOSAL WITH REGARD TO EXPENSES CLAIMED IN THIS CASE FOR THE THAMES WATER INSTITUTE, ALSO REFERRED TO AS THE AMERICAN WATER RESOURCE CENTER?

A. The Company's proposal concerning the American Research Foundation is described in detail in the direct testimony of Company witness Clerico. The Foundation will be an independent non-profit organization with the intent to use the resources of water and wastewater utilities together with academia and other non-governmental non-profit organizations to advance new watershed based solutions, enhance water quality and protect water resources for the future.

It is envisioned that the New Jersey Operation Units of American Water – New Jersey-American Water, Elizabethtown Water and Mount Holly Water (the "NJOUs") – will serve as the catalyst to create the Center by providing the initial start-up, administration and

No. WR98030147, Order Adopting in Part and Rejecting in Part Initial Decision at 12 (June 30, 1999).

funding and then to welcome other utilities including water purveyors, wastewater providers and emerging storm water managers to join as they create similar funding mechanisms.

In their respective rate cases, the NJOUS are requesting rate recognition of an annual expense of $1 million to operate the Center, plus another $1 million in startup costs to be amortized over 3 years. Thus, the total annual expense amount for which the NJOUs are requesting rate recognition is $1.333 million. This total annual expense amount is then allocated among the three NJOUs based on number of customers. Through this allocation method, EWC is being allocated $453,413 and is requesting inclusion of this annual expense amount in its Pro Forma Year operating expenses.

Q. WHAT IS THE RATEPAYER ADVOCATE'S POSITION ON THIS MATTER?

A. The Ratepayer Advocate opposes the Company's proposal to charge the cost of this initiative to the ratepayers. The Ratepayer Advocate is of the opinion that if the Company is looking for a "grant" to underwrite the launching and operation of this Foundation, it should look to its ultimate parent company, RWE, not the captive ratepayer body of the NJOUs. RWE is a worldwide organization with enormous resources.[15] The ratepayers of EWC are already being burdened with a large rate increase request in this case. In the Ratepayer Advocate's opinion, it would be untimely and inappropriate to request that the ratepayers additionally fund such a discretionary item with an annual price tag of almost

[15] Ratepayer Advocate witness Howard J. Woods, Jr. presents testimony concerning the need for this initiative in light of other research efforts already being funded by ratepayers. The Ratepayer Advocate does not oppose the creation of the Center, but believes that the Company's owners should fund the costs of additional research

one-half million dollars.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THIS ISSUE AND HOW WOULD THIS RECOMMENDATION IMPACT THE COMPANY'S PROPOSED PRO FORMA OPERATING EXPENSES IN THIS CASE?

A. Based on the previously described position of the Ratepayer Advocate on this matter, I recommend that the cost associated with the proposed American Research Foundation be treated below-the-line for ratemaking purposes in this case.

As shown on Schedule RJH-10, line 14, my recommendation decreases the Company's proposed Pro Forma Year operating expenses by approximately $454,000.

- **<u>Synergy Savings</u>**

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL IN THIS CASE WITH REGARD TO NET SYNERGY SAVINGS AS A RESULT OF THE COMMON OWNERSHIP OF THE NJOUs.

A. As shown on filing Exhibit P-2, Schedule 21, the Company has identified annual recurring synergy savings for EWC of $3,345,228. It also determined associated recurring incremental Outside Services expenses of $1,551,000 and non-recurring Cost to Achieve Savings of $2,147,436. The Company has proposed to amortize the Cost to Achieve Savings over a 3-year amortization period, resulting in annual Cost to Achieve Savings

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initiatives.

amortization expenses of $715,812. The Company then offset the recurring annual Outside Services expenses and the annual Cost to Achieve Savings amortization expenses against the annual recurring synergy savings to arrive at its proposed net annual synergy savings amount of $1,078,416. Finally, the Company allocated 75% of these net annual savings to the ratepayers while retaining 25% of the net savings for its stockholders. Accordingly, the Company has credited an annual net synergy savings amount of $808,812 to the ratepayers in this case.

Q. HAVE YOU ADJUSTED THE COMPANY'S PROPOSED POSITION WITH REGARD TO THESE NET SYNERGY SAVINGS?

A. Yes. I recommend that three adjustments be made to the Company's proposed synergy savings approach in this case. These three adjustments are shown on Schedule RJH-16 and increase the Company's proposed ratepayer-allocated synergy savings by an amount of $589,000, from approximately $809,000 to $1.398 million.

Q. COULD YOU EXPLAIN THE FIRST OF YOUR RECOMMENDED THREE SYNERGY SAVINGS ADJUSTMENTS?

A. The first recommended synergy savings adjustment concerns an adjustment to the Company's proposed Cost to Achieve Synergy Savings. As shown in the response to RAR-SS-9, the Company has proposed labor-related synergy savings of approximately $1,914,000 based on the assumption that 19.5 EWC employee positions will be eliminated. The Company is also proposing to offset these labor-related synergy savings with severance payments and outplacement costs associated with these position eliminations.

However, while the synergy savings are calculated based on 19.5 position eliminations, the associated severance payment costs and outplacement costs are based on 24.0 and 21 position eliminations, respectively. I believe that the offsetting severance and outplacement costs should be calculated based on the same number of employee position eliminations as the number used to calculate the savings from the employee position eliminations. In footnote (2) of Schedule RJH-16, I have calculated that this recommendation results in a total Cost to Achieve Synergy Savings reduction of approximately $166,000.

Q. PLEASE DESCRIBE YOUR SECOND SYNERGY SAVINGS ADJUSMENT.

A. Since the Cost to Achieve Synergy Savings represent one-time, non-recurring costs rather than annual recurring operating costs, the Company has proposed to amortize these Cost to Achieve over a 3-year period. Due to the extraordinary nature of this merger related issue and the magnitude of the Cost to Achieve Merger Savings, I believe that the use of a 5-year amortization period in this case is more reasonable and appropriate than NJAWC's proposed 3-year amortization period. I therefore recommend the use of a 5-year amortization period.

Q. WHAT IS THE RECOMMENDED THIRD SYNERGY SAVINGS ADJUSTMENT?

A. The Company has proposed to retain 25% of the net synergy savings for its shareholders while crediting the ratepayers with the remaining 75%. I disagree with this proposition for the reason that under traditional cost of service ratemaking in a base rate case all cost savings must flow to the ratepayers, since rates must be based upon the actual cost of service. I therefore recommend that 100% of the Company's net synergy savings in this case be credited to the ratepayers.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE ISSUE OF NET SYNERGY SAVINGS?

A. Yes. It should be noted that the synergy savings included in the Synergy Study and reflected by EWC on P-2, Schedule 21 are limited to short term savings that the Company deemed to be sufficiently known and measurable at this time. In this regard, Mr. Flaherty states on pages 18 and 19 of his testimony:

> In quantifying the savings, the integration team attempted to capture and quantify all savings that would be "known and measurable" by June 2004. Any savings that might occur beyond June 2004 were determined to be too far into the future, and/or conditioned upon multiple events which may or may not occur (such as the savings potentially arising from movement to a different information technology platform) and thus did not meet the definition of known and measurable changes….and, therefore would not be included in the Synergies Analysis. Synergies from the proposed combination of Companies that will occur beyond June 2004 will be analyzed and their impacts reflected in the next rate case.

With regard to this matter, RAR-SS-21 provides the following discovery requests and EWC responses:

> <u>REQUEST:</u>
> With regard to the "savings that might occur beyond June 2004 [that] were determined to be too far into the future…" mentioned starting at the bottom of page 18 of Mr. Flaherty's testimony, please provide the following information:
>
> A. Provide a detailed description of each of these potential savings opportunities that were identified by Mr. Flaherty and the integration team.
> B. For each of the potential savings opportunities to be provided in response to part A, provide your best estimate of the annualized

savings amounts, as well as a timeline as to the expected occurrence of these potential expense savings.

C. Under the assumption that the new rates from the current NJOU rate cases will not become effective until sometime around June 2004 and will stay effective for, say, a 3-year period, is it the intention of the NJOUs to defer any of the additional savings that will become known and measurable after June 2004 until the rate effective dates of the next rate cases for the NJOUs for rate consideration in these next rate cases?

RESPONSE:

A. These potential savings opportunities cannot reliably be identified or quantified at the present time.
B. Please see response to subpart A. above.
C. There is presently no intention to defer savings that may occur through the identification of additional integration synergies beyond the conclusion of this proceeding.

Thus, it is the Company's position that all additional synergy savings to be actually experienced before and after June 30, 2004 that are not included in the Synergy Study in this case flow to the stockholders until these additional synergy savings will be recognized on a going forward basis in the Company's next base rate case.

Q. DO THE SYNERGY SAVINGS IDENTIFIED IN THE SYNERGY STUDY THAT ARE DEEMED TO BE KNOWN AND MEASURABLE REPRESENT "FIRM" NUMBERS AT THIS TIME?

A. No. It has been made clear on many occasions that even the short term synergy savings that are currently identified in the Synergy Study are still evolving and represent "moving targets" at this time. In this regard, Mr. Chapman states on page 6 of his testimony:

> However, this plan is still evolving as additional information and analysis become available.

As an example of this evolving process, Mr. Chapman announced during the discovery conference on November 3, 2003 that information on updated and additional synergies would soon be forthcoming as a result of the Company's "Shaping Our Future Program," Mobile Computing implementation, and Westfield Call Center developments. None of the details behind this information is available at this time.

Q. COULD YOU PROVIDE SOME EXAMPLES OF POTENTIAL ADDITIONAL SYNERGY SAVING OPPORTUNITIES THAT HAVE NOT BEEN REFLECTED IN THE SYNERGY STUDY?

A. Yes. In the response to RAR-SS-3, the Company acknowledges that potential synergy savings exist in the areas of Information Technology and Advertising but that "the amount of any additional savings opportunities attributable to such areas would be unreliable and not quantifiable until far more is known about the details of integration."

The responses to RAR-SS-4, 5, 7 and 22 deal with the potential sublease or disposition of EWC's former Westfield, New Jersey headquarters now that the Company has moved into the new consolidated headquarters in Lawrenceville, New Jersey. Again, while the Company acknowledges that additional synergies could come from this, these synergies are not reflected in this case and will only be reflected at the time that more information regarding sublet or property sales income becomes known.

The labor-related synergy savings reflected in this case only relate to non-union labor positions. As confirmed in its response to RAR-SS-17, "Labor synergies related to union positions are not presently known, and are not anticipated to be quantifiable until contracts have been renegotiated…." This same data response indicates that there are at least two union labor contracts[16] that will expire prior to June 30, 2004.

The responses to RAR-E-48, 60 and 62 indicate that potential additional – but not yet quantifiable – synergies may exist in the areas of meter purchasing, the procurement of materials and supplies, and stock maintenance.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS BASED ON THE FOREGOING OBSERVATIONS?

A. Yes. First, I recommend that any additional known and measurable synergy savings that will become available prior to the close of record in this case be incorporated for ratemaking purposes in this case. Second, I recommend that Your Honor and the Board order the Company to keep track of, quantify and defer all additional net synergy savings that will not be reflected for ratemaking purposes in this case but will actually be experienced before and after June 30, 2004 until the rate effective date of the Company's next base rate proceeding. The Company should establish a clear accounting and audit trail for such additional net synergy savings, including workpapers showing all assumptions and calculations underlying these deferred synergy savings. These deferred net synergy savings should then be allocated to the ratepayers through an appropriate amortization mechanism in the Company's next base rate proceeding. Due to the extraordinary nature of this merger and potential magnitude of these – as yet unquantified – merger synergy savings, I believe it is appropriate that Your Honor and the Board order this deferral mechanism.

[16] The Delran (1/26/04) and Short Hills (4/3/04) labor contracts.

- Other O&M Expenses

Q. PLEASE EXPLAIN THE RECOMMENDED OTHER O&M EXPENSE ADJUSTMENTS SHOWN ON SCHEDULE RJH-17.

A. The Company's proposed pro forma level of Other O&M expenses of $11.324 million is based on the actual Other O&M expenses of $10.994 million for the 2002 Test Year, increased by an estimated 3% inflation factor of approximately $330,000.

In this case, the Company has made many pro forma O&M expense adjustments which it believed were known and measurable or which could be approximated with reasonable accuracy. To support these specific pro forma O&M expense increases, the Company supplied workpapers showing all calculations and underlying assumptions. However, to add an estimated general inflation factor to the remaining O&M expenses without any detailed support for the reasonableness or accuracy of the resulting costs increases is inappropriate and contrary to established BPU policy.[17] I therefore recommend the removal of the Company's proposed 3% inflation adjustment of $330,000.

I have also removed the lobbying expense portion of the Company's test year NAWC dues, amounting to approximately $22,000, as confirmed by the Company in its response to RAR-A-29.

[17] *I/M/O the Petition of New Jersey-American Water Company for an Increase in Rates for Water and Sewer Service and Other Tariff Modifications,* BPU Docket No. WR98010015, Order Adopting in Part and Rejecting in Part Initial Decision at 33 (Apr. 6, 1999).

Next, I have removed $47,000 worth of charitable contribution expenses that are included in the Company's proposed test year Other O&M expenses. The specific donation items are listed in the response to RAR-A-23 B.

Next, the response to RAR-A-31 shows that the Company's proposed test year Other O&M expenses include $413,125 for "drought emergency" expenses. I do not believe that this can appropriately be considered a recurring annual operating expense. I have therefore normalized this large expense item by amortizing it over a 3-year period. This results in a normalized annual expense of $137,708, necessitating an expense reduction adjustment of $275,417 ($137,708 vs. $413,125).

Finally, I have removed from the test year operating expenses an amount of $750,000 the Company has proposed to include for so-called Thames Overhead charges. The inclusion of these Thames Overhead charges in the 2002 base year is shown in the responses to RAR-A-31 (account 930-517968) and RAR-A-81 (account 401-930). I understand that EWC is no longer charged with this Thames Overhead cost allocation of $750,000. This is also evidenced by the fact that these costs are no longer booked by EWC in the 2003 Pro Forma Year.

Q. WHAT IS THE IMPACT OF ALL OF THESE RECOMMENDED OTHER O&M EXPENSE ADJUSTMENTS ON THE COMPANY'S PROPOSED PRO FORMA YEAR O&M EXPENSES?

A. As shown on line 7 of Schedule RJH-17, the combined impact of all of the previously described Other O&M expense adjustments is a decrease of $1,424,000 in the Company's proposed pro forma Other O&M expenses.

- **Amortization of Gains on Sales of Utility Property**

Q. DOES THE BOARD HAVE A POLICY WITH REGARD TO GAINS ON THE SALES OF UTILITY PROPERTY WHEN SUCH UTILITY PROPERTY HAS PREVIOUSLY BEEN INCLUDED IN THE UTILITY'S RATE BASE?

A. Yes. The Board has espoused the ratemaking policy that gains on the sales of utility property be shared on a 50/50 basis between ratepayers and shareholders.[18] I agree with this ratemaking policy. If the particular property sold was previously included in rate base, this means that the ratepayers have always paid for a return and all operating and maintenance expenses and property taxes associated with the property. It would, therefore, be reasonable and appropriate to have the ratepayers share in the gains accrued from the sale of the property.

[18] *See I/M/O the Petition of Atlantic City Sewerage Company for Authorization to Execute and Implement an Agreement of Sale, and to Implement a Plan of Distribution of the Net Proceeds Therefrom*, BPU Docket No. WM98090790, Order of Implementation at 4 (Jan. 14, 1999); *I/M/O the Petition of Hackensack Water Company – Removal from Rate Base and Transfer of Excess Lands; and Consideration of Stipulation Regarding Golf Course Transfers and Utility Acquisition Watershed Properties*, BPU Docket Nos. 8312-1096 *et al*., Order of Approval at

Q. WAS THIS RATEMAKING POLICY APPLIED TO GAINS ON THE SALES OF PROPERTY IN EWC'S PRIOR RATE CASE?

A. Yes. As confirmed by the Company in its response to RAR-A-33, in the Company's prior case, BPU Docket No. WR01040205, gains on the 2001 sale of Bridgewater Township land [19] that had previously been included in the Company's rate base was addressed for ratemaking purposes through a 3-year amortization of 50% of the gain amount.

Q. HAS THE COMPANY EXPERIENCED ADDITIONAL GAINS FROM THE SALES OF UTILITY PROPERTY DURING THE RATE EFFECTIVE PERIOD OF THE PRIOR RATE CASE?

A. Yes. In its response to RAR-A-33, the Company has listed the pre-tax gains from all of the utility property sales made by EWC during the rate effective period of the prior case, from 3/1/2002 through the end of 2003. There were two properties sold in 2002 and 2003 that were previously included in the Company's rate base as utility property. The pre-tax gains associated with these two property sales are listed on Schedule RJH-18, lines 1 and 2 and total $446,486.

Q. WHAT RATE TREATMENT IS THE COMPANY PROPOSING IN THIS CASE FOR THE GAIN ASSOCIATED WITH THESE TWO PROPERTY SALES?

A. Since these gains are not used by the Company to reduce the revenue requirement in this case, the Company is proposing that 100% of the gains associated with these utility property sales be treated below-the-line to fully accrue to the benefit of its stockholders.

14 (Oct. 12, 1993).

Q. DO YOU AGREE WITH THIS PROPOSED RATEMAKING TREATMENT?

A. No. The Company's proposal is not only unreasonable and inequitable to the ratepayers, it is also contrary to Board ratemaking policy.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THIS ISSUE?

A. In accordance with Board ratemaking policy, I recommend that 50% of the gain associated with these two property sales accrue to the Company's stockholders while the remaining 50% be flowed to the ratepayers through an appropriate amortization of this gain portion. I recommend an amortization period of three years. As shown on Schedule RJH-18, lines 3 through 6, my recommendation results in an annual pre-tax gain amortization amount of approximately $74,000 which should be used as an operating expense credit in this case.

- Annualized Depreciation Expense

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED AND YOUR RECOMMENDED ANNUALIZED DEPRECIATION EXPENSE LEVELS.

A. The Company has proposed a total annualized depreciation expense of $17.467 million. As shown in detail on filing Exhibit P-2, Schedule 24, EWC generally determined this proposed annualized depreciation expenses by applying its currently authorized depreciation rates to its proposed projected depreciable plant balances as of June 30, 2004. This produced annualized deprecation expenses of $18.503 million. The Company then

[19] Now referred to as Washington Valley land

reduced this annualized depreciation expense by the depreciation associated with plant funded by Customer Advances and Contributions in Aid of Construction. The net result is the Company's proposed pro forma annualized depreciation expense of $17.467 million. This is summarized in the first column on Schedule RJH-19.

Schedule RJH-19 shows that when the Company's proposed annualized gross depreciation expense of $18.503 million is divided into the Company's projected 6/30/04 depreciable plant in service balance, this results in an overall composite depreciation rate of 1.973%. In determining the recommended annualized depreciation expense level, I have applied this same overall composite depreciation rate of 1.973% to the preliminary recommended depreciable plant in service balance of $875.649 million. As shown on Schedule RJH-19, line 5, this produces a preliminary recommended annualized depreciation expense of $17.281 million. I then reduced this annualized depreciation expense by the depreciation expense associated with plant funded by Customer Advances and Contributions in Aid of Construction. This produces the currently recommended annualized net depreciation expense level of $16.273 million. This annualized depreciation expense number must eventually be updated by re-calculating it based on the actual plant in service and actual Customer Advances and Contributions in Aid of Construction levels as of December 31, 2003.

- **Amortization Expenses**

Q. WHY DID YOU ADJUST THE COMPANY'S AMORTIZATION EXPENSES, AS SHOWN ON SCHEDULE RJH-8, LINE 12?

A. As further detailed on Schedule RJH-6, I have reduced the Company's proposed Pro Forma Year amortization expenses by $121,000 to reflect my previously discussed recommendation that all aspects of the Manville Acquisition Adjustment, including the Company's proposed 20-year amortization of this acquisition adjustment, be removed for ratemaking purposes from this case.

- **Property Taxes**

Q. WHY DID YOU ADJUST THE COMPANY'S PROPOSED PROPERTY TAXES, AS SHOWN ON SCHEDULE RJH-8, LINE 15?

A. As described on page 34 of Mr. Prettyman's testimony, the Company's proposed Pro Forma Year property taxes of approximately $874,000 represented a preliminary tax number that should be updated for the final 2003 taxes after these updates had been received from the municipalities. In the response to RAR-A-18, the Company provided the updated property tax amount for 2003 which turned out to be approximately $845,000. This produced a downward adjustment of $29,000 in the Company's proposed Pro Forma Year property taxes.

- <u>Payroll Taxes</u>

Q. WHY HAVE YOU ADJUSTED THE COMPANY'S PROPOSED PRO FORMA PAYROLL TAXES, AS SHOWN ON SCHEDULE RJH-8, LINE 14?

A. The recommended payroll tax adjustment is a direct result of the recommended payroll expense adjustment. The calculations underlying this recommended payroll tax adjustment are shown on Schedule RJH-11, page 1.

- <u>Revenue Taxes</u>

Q. WHY DID YOU ADJUST THE COMPANY'S PROPOSED REVENUE TAXES, AS SHOWN ON SCHEDULE RJH-8, LINE 16?

A. The Company's revenue taxes are a function of its operating revenues. Since I have recommended a number of operating revenue adjustments, the Company's revenue taxes should similarly be adjusted. As shown in footnote (3) of Schedule RJH-8, the recommended revenue tax adjustment is calculated by applying the combined Gross Receipts and Franchise Tax rate of 13.51% to the total recommended operating revenue adjustment shown on line 8 of Schedule RJH-8.

- <u>Income Taxes</u>

Q. HOW DID YOU DERIVE THE RECOMMENDED PRO FORMA INCOME TAXES TO BE USED FOR RATE MAKING PURPOSES IN THIS CASE?

A. As shown on Schedule RJH-20, I have used the exact same methodology and calculation components as those used by the Company to derive the recommended pro forma income taxes. Therefore, there is no income tax issue per se. The only reason why the recommended pro forma income taxes are different from the Company's proposed pro forma income taxes is because of the recommended adjustments made by me in the areas of operating revenues, operating expenses and pro forma interest.

Q. MR. HENKES, DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A Yes, it does.

SUPPORTING SCHEDULES

RJH-1 - RJH-20

ELIZABETHTOWN WATER COMPANY
SUMMARY OF REVENUE REQUIREMENT POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Pro Forma Rate Base	$ 601,223	$ (75,153)	$ 526,070	Sch. RJH-3
2. Rate of Return	8.00%		6.96%	Sch. RJH-2
3. Income Requirement	48,098		36,617	
4. Pro Forma Income	37,643	4,047	41,690	Sch. RJH-8
5. Income Deficiency	10,455		(5,074)	
6. Revenue Conversion Factor	1.76375		1.76375	(2)
7. Rate Increase/(Decrease)	$ 18,440	$ (27,388)	$ (8,949)	

(1) P-2, Schedule 4

(2)

Revenues	100.0000	$ (8,949)
GRFT	(12.5760)	1,125
Bad Debt	(0.2000)	18
	87.2240	(7,805)
FIT @ 35%	(30.5284)	2,732
Income	56.6956	$ (5,073)
Conversion Factor (100.000 / 56.6956)	1.76375	

ELIZABETHTOWN WATER COMPANY
SUMMARY OF RATE OF RETURN POSITION

EWC PROPOSAL:	Ratios (1)	Cost Rates (1)	Weighted Cost Rates (1)
Long Term Debt	47.20%	5.99%	2.83%
Short Term Debt	8.96%	3.53%	0.32%
Total Debt	56.16%		3.15%
Preferred Stock	2.05%	7.37%	0.15%
Common Equity	41.79%	11.25%	4.70%
Total Cost of Capital	100.00%		8.00%

RPA RECOMMENDATION:	Ratios (2)	Cost Rates (2)	Weighted Cost Rates (2)
Long Term Debt	47.20%	5.99%	2.83%
Short Term Debt	8.96%	2.00%	0.18%
Total Debt	56.16%		3.01%
Preferred Stock	2.05%	7.37%	0.15%
Common Equity	41.79%	9.10%	3.80%
Total Cost of Capital	100.00%		6.96%

(1) P-2, Schedule 26
(2) Testimony of James Rothschild, Schedule JAR-1

ELIZABETHTOWN WATER COMPANY
SUMMARY OF RATE BASE POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Utility Plant in Service	$ 944,375	$ (61,737)	$ 882,638	Sch. RJH-4
2. Acquisition Adjustment	2,413	(2,413)	-	Henkes Testimony
3. Gross Utility Plant	946,788	(64,150)	882,638	
4. Depreciation Reserve	(192,536)	555	(191,981)	Sch. RJH-5
5. Amortization Reserve	(446)	242	(204)	Sch. RJH-6, L6
6. Net Utility Plant	753,806	(63,353)	690,453	
7. Materials and Supplies	3,085	(157)	2,928	(2)
8. Prepayments	1,633	549	2,182	(2)
9. Cash Working Capital	10,300	(10,300)	-	Henkes Testimony
10. Customer Deposits	(2)	2	-	(3)
11. Deferred Federal Income Taxes	(62,702)	818	(61,884)	(3)
12. Customer Advances	(45,422)	6,266	(39,156)	(3)
13. Contributions in Aid of Constr.	(59,253)	(3,390)	(62,643)	(3)
14. Unamortized Pre-71 ITC	(224)		(224)	
15. Consolidated Income Taxes	-	(4,857)	(4,857)	(4)
16. Self-Insurance Reserve Balance	-	(729)	(729)	Sch. RJH-7
12. TOTAL NET RATE BASE	$ 601,223	$ (75,151)	$ 526,070	

(1) P-2, Schedule 31, page 1 of 8
(2) 13-month average balance for October 2002 through October 2003. To be updated for actual year 2003 average balance.
(3) Actual balance as of 10/31/03. To be updated for actual balance at 12/31/03
(4) Response to RAR-A-15

ELIZABETHTOWN WATER COMPANY
UTILITY PLANT IN SERVICE
$000's

1. EWC's Proposed Estimated Plant in Service Balance as of 6/30/04	$	944,375	(1)
2. Actual Plant in Service Balance at 8/31/03		882,638	* (2)
3. Preliminary Plant in Service Adjustment	$	(61,737)	

* To be replaced by the actual plant in service balance as of December 31, 2003 once this actual information has become available.

(1) P-2, Schedule 31, p. 2 of 8
(2) Response to RAR-A-1, updated

ELIZABETHTOWN WATER COMPANY
RECOMMENDED DEPRECIATION RESERVE BALANCE

1. Actual Depreciation Reserve Balance at 12/31/02/02	$	175,708	(1)
2. Recommended Annualized Depreciation Expense Based on 12/31/03 Plant		16,273	Sch. RJH-19
3. Recommended Pro Forma Depreciation Reserve at 12/31/03	$	191,981	

(1) P-2, Schedule 31, p. 1 of 8

ELIZABETHTOWN WATER COMPANY
SUMMARY OF AMORTIZATION EXPENSE AND RESERVE POSITIONS
$000's

	EWC		Adjustments			RPA	
IMPACT ON EXPENSES:	(1)						
1. Amortization of Leasehold Improvements	$	109				$	109
2. Amortization of Manville Acquisition Adj.		121		(121)			-
3. Total Amortization Expenses	$	230	$	(121)		$	109

	EWC		Adjustments			RPA	
INMPACT ON RATE BASE:	(2)						
4. Amortization Balance at 12/31/02	$	216	$	(121)	(3)	$	95
5. Pro Forma 2003 Amortization Exp. [Line3]		230		(121)			109
6. Pro Forma Amort. Reserve at 12/31/03	$	446	$	(242)		$	204

(1) P-2, Schedule 25
(2) P-2, Schedule 31, p.1 of 8
(3) Per response to RAR-A-72: remove portion related to prior Manville acquisition adjustment amortizations

ELIZABETHTOWN WATER COMPANY
INSURANCE RESERVE RATE BASE DEDUCTION
$000's

1. Actual Self-Insurance Reserve Balance as of 7/31/03	$	1,122	*	(1)
2. Associated Deferred Income Taxes @ 35%		(393)		
3. Net After-Tax Reserve Balance	$	729		

* To be updated for actual reserve balance as of 12/31/03

(1) Per response to RAR-A-16 C

ELIZABETHTOWN WATER COMPANY
SUMMARY OF OPERATING INCOME POSITIONS
$000's

	EWC (1)	Adjustments		RPA	
1. Operating Revenues:					
2. General Metered Service	$ 104,798			$ 104,798	
3. Optional Industrial Wholesale	9,269			9,269	
4. Service to Other Systems	24,755			24,755	
5. Public Fire	11,455			11,455	
6. Private Fire	8,560			8,560	
7. Other Operating Revenues	67	1,117		1,184	Sch. RJH-9
8. Total Operating Revenues	158,904	1,117		160,021	
9. Operating Expenses:					
10. O&M Expenses	70,120	(5,461)		64,659	Sch. RJH-10
11. Depreciation Expenses	17,467	(1,194)		16,273	Sch. RJH-19
12. Amortization Expenses	230	(121)		109	Sch. RJH-6, L3
13. Total Depr. and Amort. Exp.	17,697	(1,315)		16,382	
14. Payroll Taxes	2,415	(139)		2,276	Sch. RJH-11, p1
15. Property Taxes	874	(29)		845	(2)
16. Revenue Taxes	19,786	151	(3)	19,937	
17. Other Taxes	307			307	
18. Total Taxes o/t Income Taxes	23,382	(17)		23,365	
19. Total Operating Expenses	111,199	(6,793)		104,406	
20. Net Revenues Before Income Tax	47,705	7,910		55,615	
21. Income Taxes	10,063	3,862		13,925	Sch. RJH-20
22. Pro Forma Net Operating Income	$ 37,642	$ 4,048		$ 41,690	

(1) P-2, Schedules 4, 5 and 6
(2) Response to RAR-A-18 B
(3) GRFT rate of 13.51% x total operating revenues adjustment on Sch. RJH-8, L8

ELIZABETHTOWN WATER COMPANY
SUMMARY OF OTHER OPERATING REVENUE POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Other Operating Revenues	$ 67	$ 41	$ 108	(2)
2. Antenna Revenues	-	1,076	1,076	Henkes Testimony
3. Total Other Operating Revenues	$ 67	$ 1,117	$ 1,184	

(1) P-2, Schedule 5, page 1
(2) Responses to RAR-A-1 (updated) and RAR-A-65

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA OPERATION AND MAINTENANCE EXPENSE POSITIONS
$000's

	EWC (1)	Adjustments		RPA	
1. Salaries and Wages	$ 25,783	$ (1,740)		$ 24,043	Sch. RJH-11, p1
2. Employee Benefits	11,523	162		11,685	Sch. RJH-12
3. Production Power	7,568	(369)		7,199	Sch. RJH-13
4. Chemicals	2,134			2,134	
5. Residual Disposal	892	(231)		661	Sch. RJH-14
6. Purchased Water	9,763	(76)	(2)	9,687	
7. Tank Painting	768	(618)		150	Henkes Testimony
8. Capit. Overhead & Cost Allocations	(5,897)			(5,897)	
9. Insurance	2,439			2,439	
10. Vehicle Lease Expenses	1,449			1,449	
11. Customer Relationship Mgmt	1,388			1,388	
12. Rate Case Expense	100	(50)		50	Sch. RJH-15
13. Rent Expense	925			925	
14. Research Foundation	454	(454)		-	Henkes Testimony
15. Synergy Study Savings	(809)	(589)		(1,398)	Sch. RJH-16
16. BPU and RPA Assessments	316	2		318	(3)
17. Other O&M Expenses	11,324	(1,424)		9,900	Sch. RJH-17
18. Gains on Sales of Utility Property	-	(74)		(74)	Sch. RJH-18
18. Total Pro Forma O&M Expenses	$ 70,120	$ (5,461)		$ 64,659	

(1) P-2, Schedule 6

(2) Per P-2, Schedule 12: remove proposed PWAC amortization expense of $76,058

(3) Total assessment rate of .001986531 x RPA-recommended total operating revenues on Sch. RJH-8, L8

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA PAYROLL EXPENSE POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
IMPACT ON O&M EXPENSES:				
1. Total Labor Costs Based on 447 FT and 8 PT Employees	$ 30,102		$ 30,102	
2. Remove Incentive Compensation Included in Line 1	-	(830)	(830)	(2)
3. Remove 18 FT Vacancy Positions Included in Line 1	-	(1,201)	(1,201)	Sch. RJH-11, p.2
4. Total Payroll Cost Prior to Capitalization	30,102	(2,031)	28,071	
5. Capitalization Rate	14.35%	14.35%	14.35%	
6. Capitalized Payroll [L4 x L5]	4,320	(291)	4,028	
7. Payroll Charged to O&M Exp. [L4 - L6]	$ 25,783	$ (1,739)	$ 24,043	
IMPACT ON PAYROLL TAXES:				
8. Composite Payroll Tax Ratio		8%	(3)	
9. Payroll Tax Impact of Payroll Expense Adjustment on Line 7 [L7 x L8}		$ (139)		

(1) P-2, Schedule 7

(2) Workpapers supporting P-2, Schedule 7

(3) P-2, Schedules 7 and 26: P/R tax expense of $2,414,681 divided by payroll expense of $30,102,293 is 8%

ELIZABETHTOWN WATER COMPANY
RECOMMENDED EMPLOYEE LEVEL ADJUSTMENT

1.	EWC's Proposed Pro Forma Full-Time Employee Level		447	(1)
2.	EWC's Proposed Pro Forma Full-Time Employee Payroll:			
	- Full-Time Regular Payroll	$ 26,711,832		(1)
	- Full-Time Overtime Payroll	3,106,445		(1)
	- Full_Time Employee Total Payroll		$ 29,818,277	
3.	Average Payroll per Full-Time Employee		$ 66,708	
4.	Recommended Level of Full-Time Employees		429	(2)
5.	EWC's Proposed Pro Forma Full-Time Employee Level		447	
6.	Recommended Full-Time Employee Reduction		(18)	
7.	Recommended Payroll Adjustment [L3 x L6]		$ (1,200,736)	

(1) P-2, Schedule 7 Workpaper

(2) Per response to RAR-A-39: Actual Full-Time employee level as of Sepember 2003.

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA EMPLOYEE BENEFIT EXPENSE POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Medical	$ 4,805	$ (45)	$ 4,760	(2)
2. Dental	458		458	
3. Life Insurance	263		263	
4. Pensions	2,801	(66)	2,735	(3)
5. 401K	822		822	
6. Post-Retirement Benefits	2,374	273	2,647	(3)
7. Total Pro Forma Employee Benefit Expenses	$ 11,523	$ 162	$ 11,685	

(1) P-2, Schedule 8

(2) Response to SRR-20:

- Actual 2003 monthly premium	$ 411,325
	12 x
- Annualized	$ 4,935,900
- Employee Contributions	(210,212)
- Net Medical Expenses	4,725,688
- Plus: MERP premium	34,345
- Total Medical Expenses	$ 4,760,033

(3) Response to RAR-A-47

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA POWER EXPENSE POSITIONS

	EWC (1)	Adjustments	RPA	
1. Cost/MG for Treatment Plants	$ 100.74		$ 94.83	(2)
2. Treatment Plant MG Production	46,697		46,697	
3. Pro Forma Treatment Plant Power Expense	$ 4,704,256	$ (275,979)	$ 4,428,277	
4. Cost/MG for Wells and Boosters	$ 65.86		$ 64.03	(2)
5. Wells & Boosters MG Production	51,018		51,018	
6. Pro Forma Treatment Plant Power Expense	$ 3,360,045	$ (93,363)	$ 3,266,683	
7. Total Pro Forma Power Expense [L3 + L6]	$ 8,064,301		$ 7,694,959	
8. Less: Energy Dema	(496,000)		(496,000)	
9. Total Net Pro Forma Power Expense	$ 7,568,301	$ (369,342)	$ 7,198,959	

(1) P-2, Schedule 9
(2) Response to RAR-A-50

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA RESIDUAL DISPOSAL EXPENSE POSITIONS
$000's

	EWC (1)	Adjustments	RPA
1. Pro Forma Annualized Residual Disposal Exp.	$ 661		$ 661
2. Amortization of Prior Year Disposal Expenses	231	(231)	-
3. Total Pro Forma Residual Disposal Expense	$ 892	$ (231)	$ 661

(1) P-2, Schedule 11

ELIZABETHTOWN WATER COMPANY
SUMMARY OF RATE CASE EXPENSE POSITIONS

	EWC (1)	Adjustments	RPA
1. Legal Expense	$ 250		$ 250
2. Rate of Return Expense	30		30
3. Miscellaneous Rate Case Expense	20		20
4. Total Rate Case Expenses	300		300
5. Ratepayer/Stockholder Sharing	-		50%
6. Ratepayer Expense Portion	300		150
7. Amortization Period (Yrs)	3		3
8. Total Annualized Expense	$ 100	$ (50)	$ 50

(1) P-2, Schedule 18

ELIZABETHTOWN WATER COMPANY
SUMMARY OF NET SYNERGY SAVINGS POSITIONS
$000's

	EWC (1)	Adjustments	RPA
1. Total Annual Synergy Savings	$ 3,345		$ 3,345
2. Total Cost to Achieve Synergy Savings	2,147	(166) (2)	1,981
3. Amortization Period (Yrs)	3		5
4. Annual Cost to Achieve Amortization	716		396
5. Additional Outside Services	1,551		1,551
6. Net Annual Synergy Savings [L1 - L4 - L5]	1,078		1,398
7. Ratepayer Allocation of Synergy Savings	75%		100%
8. Total Ratepayer-Allocated Synergy Savings	$ 809	$ 589	$ 1,398

(1) P-2, Schedule 21, p.2

(2) Per response to RAR-SS-9:

- remove outplacement cost for 1.5 redundant positions: 1.5 x $8,500 =	$ 8,500
- remove severance cost for 4.5 redundant positions: 4.5 x $$52,000 x 1.35 x 50% =	157,950
- Total Cost to Achieve reduction adjustment:	$ 166,450

ELIZABETHTOWN WATER COMPANY
RECOMMENDED OTHER OPERATIONS AND MAINTENANCE EXPENSES

		EWC (1)	Adjustments	RPA	
1.	Adjusted Base Year Other O&M Expenses	$ 10,994		$ 10,994	
2.	Estimated Inflation Increaes @ 3% of Line 1	330	(330)	-	
3.	Pro Forma Other O&M Expenses	11,324	(330)	10,994	
4.	Remove NAWC Lobbying Expenses	-	(22)	(22)	(2)
5.	Remove Commnunity Public Relations Exp.	-	(47)	(47)	(3)
6.	Amortize Drought Emergency Expenses	-	(275)	(275)	(4)
7.	Remove "Thames Overhead Charges"	-	(750)	(750)	(5)
7.	Total Net Other O&M Expenses	$ 11,324	$ (1,424)	$ 9,900	

(1) P-2, Schedule 23
(2) Response to RAR-A-29
(3) Response to RAR-A-23 B
(4) Responses to RAR-A-31 and RAR-A-100: $413,125, amortized over 3 years = $137,708. Expense adjustment = $275,417
(5) Response to RAR-A-81 and RAR-A-102

ELIZABETHTOWN WATER COMPANY
RECOMMENDED AMORTIZATION OF GAINS ON SALES OF UTILITY PROPERTY

1. Pre-Tax Gain on 2002 Sale of Tyler Place	$	118,661	(1)
2. Pre-Tax Gain on 2003 Sale of Johnson Drive		327,825	(1)
3. Total Pre-Tax Gains from Sales of Utility Property		446,486	
4. Ratepayer Share of Gain @ 50%		223,243	
5. Amortization Period (Yrs)		3	
6. Annual Gain Amortization	$	74,414	

(1) Response to RAR-A-33

ELIZABETHTOWN WATER COMPANY
SUMMARY OF ANNUALIZED DEPRECIATION EXPENSE POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Pro Forma Utility Plant in Service	$ 944,375	$ (61,737)	$ 882,638	Sch. RJH-4
2. Less: Non-Depreciable Plant	(6,750)		(6,750)	
3. Pro Forma Depreciable Plant	937,625	(61,737)	875,888	
4. Composite Depreciation Rate	1.973%		1.973%	
5. Gross Depreciation Expense	18,503	(1,222)	17,281	
6. Less: Depreciation on Plant Funded by Customer Advances and CIAC:				
a. Cust. Adv. and CIAC at 12/31/03	104,675		101,799	Sch. RJH-3
b. Composite Depreciation Rate	0.99%		0.99%	
c. Depreciation Expense Credit	1,036	(28)	1,008	(2)
7. Net Depreciation Expense [L5 - L6c]	$ 17,467	$ (1,193)	$ 16,273	

(1) P-2, Schedule 24

ELIZABETHTOWN WATER COMPANY
SUMMARY OF PRO FORMA INCOME TAX POSITIONS
$000's

	EWC (1)	Adjustments	RPA	
1. Net Revenues Before FIT	$ 47,705		$ 55,615	Sch. RJH-8, L20
2. Less: Pro Forma Interest	(18,939)		(15,816)	(2)
3. Taxable Income	28,766	11,032	39,799	
4. FIT Rate	35%		35%	
5. Pro Forma Income Taxes	10,068	3,861	13,930	
6. Add: Tax on Flow Thru Difference	191		191	
7. Deduct: ITC Amortization	(196)		(196)	
8. Adjusted Pro Forma Income Taxes	$ 10,063	$ 3,861	$ 13,925	

(1) P-2, Schedule 30

	EWC	RPA	
(2) Rate Base	$ 601,223	$ 526,070	Sch. RJH-3
Weighted Cost of Debt	3.15%	3.0065%	Sch. RJH-2
Pro Forma Interest	$ 18,939	$ 15,816	

ELIZABETHTOWN WATER COMPANY
MANVILLE ACQUISITION COST/BENEFIT ANALYSIS
IN PRIOR EWC CASE, DOCKET NO.WR01040205

[Sch. RJH-5 in WR01040205]

	EWC (1)	Adjustments	RPA	
IMPACT ON NET INCOME FOR EWC's CURRENT CUSTOMERS WITH MANVILLE ACQUISITION:				
1. Total GMS and Fire Revenues at Present Rates	$ 1,324,781	$ (208,942)	$ 1,115,839	RAR-RD-23
2. Power/Chemicals/Purchased Water Expenses	142,637		142,637	
3. Billing/Postage/Lock Box Expenses	33,000		33,000	
4. Meter Reading/Water Quality/Mains Maint. Exp.	-	42,000	42,000	WP&R-11
5. Expenses Related to T&D Maintenance	-	25,000	25,000	WP&R-11
6. Power Expense for Facilities	-	2,000	2,000	WP&R-11
7. Miscellaneous Office Expense	-	1,000	1,000	WP&R-11
8. Depreciation Expense	48,750		48,750	
9. Amortization of Acquisition Adjustment	120,500		120,500	
10. Property Taxes	-		NA	
11. GRAFT Taxes @ 12.55% of Line 1	166,260		140,038	
12. Total Operating Expenses [L2 - L11]	511,147	43,778	554,925	
13. Net Income Before Income Taxes [L1 - L12]	813,634	(252,720)	560,914	
14. Net Rate Base:				
a. UPIS & Acq. Adjustment	4,910,000		4,910,000	
b. Accum. Depreciation	(48,750)	24,375	(24,375)	RAR-A-105C
c. Accum. Acq. Adj.	(120,500)	120,500	-	RAR-A-105C
d. Net Rate Base	4,740,750	144,875	4,885,625	
15. Interest Exp.Tax Deduction @3.19% of L14d	151,230	4,622	155,851	
16. Taxable Income [L13 - L 15]	662,404	(257,341)	405,063	
17. Income Tax @ 35% of L16	231,841	(90,069)	141,772	
18. Net Income After Income Taxes [L13 - L17]	581,793	(162,650)	419,142	
19. Income Requirement Due to Rate Base Rate of Return @ 8.65% x L14d	410,075	12,532	422,607	
20. Net Utility Operating Income Available [L18 - L19}	$ 171,718	$ (175,182)	$ (3,464)	
IMPACT ON NET INCOME FOR EWC's CURRENT CUSTOMERS WITHOUT MANVILLE ACQUISITION:	(2)			
21. Annual Revenues and Associated MG Sales From Manville as SOS Customer at Present Rates	397,538 [255.5 MG]	58,675	456,213 [284.25 MG]	
22. O&M Expenses @ $335 per MG	85,593	9,631	95,224	
23. GRAFT @ 15% of L21	59,631	(2,376)	57,255	12.55% of L21
24. Taxable Income [L21 - L22 - L23]	252,315	51,420	303,735	
25. FIT @ 35% of L24	88,310	17,997	106,307	
26. Net Utility Operating Income Available [L24 - L25]	$ 164,005	$ 33,423	$ 197,427	
REVENUE REQUIREMENT IMPACT FOR EWC's CURRENT CUSTOMERS DUE TO ACQUISITION AS COMPARED TO NO ACQUISITION:				
27. Impact on Net Utility Income Due to Acquisition As Compared to No Acquisition [L20 - L26]	$ 7,713	$ (208,605)	$ (200,892)	
28. Revenue Requirement Conversion Factor	1.76682		1.76682	
29. EWC's Current Customers Revenue Requirement	$ (13,628)	$ 368,567	$ 354,940	

(1) Response to RAR-A-38
(2) Response to WP&R-5 and bottom of the response to RAR-A-38

APPENDIX I

PRIOR REGULATORY EXPERIENCE OF ROBERT J. HENKES

* = Testimonies prepared and submitted

ARKANSAS

Southwestern Bell Telephone Company Divestiture Base Rate Proceeding*	Docket 83-045-U	09/1983

DELAWARE

Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 41-79	04/1980
Delmarva Power and Light Company Electric Fuel Clause Proceeding	Docket 80-39	02/1981
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Delmarva Power and Light Company Electric Base Rate Proceeding	Docket 81-12	06/1981
Delmarva Power and Light Company Gas Base Rate Proceeding*	Docket 81-13	08/1981
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 82-45	04/1983
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 83-26	04/1984
Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 84-30	04/1985
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Delmarva Power and Light Company Electric Base Rate Proceeding*	Docket 86-24	12/1986 01/1987
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Delmarva Power and Light Company Electric Fuel Clause Proceeding*	Docket 87-33	06/1988
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Artesian Water Company Water Base Rate Proceeding*	Docket 99-197 (Direct Test.)	09/1999
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Tidewater Utilities/ Public Water Co. Water Base Rate Proceedings*	Docket No. 99-466	03/2000
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Tidewater Utilities Water Base Rate Proceeding*	Docket No. 02-28	07/2002
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Georgia Power Company Earnings Review - Report to GPSC*	Non-Docketed	09/1995
Georgia Alltel Telecommunication Companies Earnings and Rate Reviews	Docket No. 6746-U	07/1996
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Kentucky Power Company Electric Base Rate Proceeding*	Case 8734	06/1983
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Kentucky-American Water Company Base Rate Proceeding*	Case 97-034	06/1997
Delta Natural Gas Company Base Rate Proceeding*	Case 97-066	07/1997
Kentucky Utilities and LG&E Company Environmental Surcharge Proceeding	97-SC-1091-DG	01/1999
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Delta Natural Gas Company Base Rate Proceeding*	Case No. 99-176	09/1999
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Jackson Energy Cooperative Corporation Electric Base Rate Proceeding*	Case No. 2000-373	02/2001
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Kentucky-American Water Company Rehearing Opposition Testimony*	Case No. 2000-120	03/2001
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Fleming-Mason Energy Cooperative Electric Base Rate Proceeding	Case No. 2001-244	05/2002

MAINE

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Central Maine Power Company Electric Base Rate Proceeding	Docket 90-076	03/1991
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MARYLAND

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Delmarva Power and Light Company Electric Base Rate Proceeding*	Case 7427	08/1980
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Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7591	12/1981
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Chesapeake and Potomac Telephone Company Divestiture Base Rate Proceeding*	Case 7735	10/1983
AT&T Communications of Maryland Base Rate Proceeding	Case 7788	1984
Chesapeake and Potomac Telephone Company Base Rate Proceeding*	Case 7851	03/1985
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Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 8011-836	02/1981
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New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8211-1030	11/1982
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 829-777	12/1982
Public Service Electric and Gas Company Electric and Gas Base Rate Proceedings*	Docket 837-620	10/1983
New Jersey Bell Telephone Company Base Rate Proceeding	Docket 8311-954	11/1983

AT&T Communications of New Jersey Base Rate Proceeding*	Docket 8311-1035	02/1984
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket 849-1014	11/1984
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United Telephone of New Jersey Base Rate Proceeding	Docket TR8810-1187	08/1989
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Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER9109145J	11/1991
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New Jersey Natural Gas Company Gas Base Rate Proceeding*	Docket GR9108-1393J	03/1992
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Middlesex Water Company Water Base Rate Proceeding*	Docket WR92090885J	01/1993
Elizabethtown Water Company Water Base Rate Proceeding*	Docket WR92070774J	02/1993
Public Service Electric and Gas Company Electric Fuel Clause Proceeding	Docket ER91111698J	03/1993
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Atlantic City Electric Company Electric Fuel Clause Proceeding	Docket ER94020033	07/1994
Borough of Butler Electric Utility Various Electric Fuel Clause Proceedings	Docket ER94020025	1994
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New Jersey American Water Company* Base Rate Proceeding	Docket WR95040165	01/1996

Rockland Electric Company Electric Fuel Clause Proceeding	Docket ER95090425	01/1996
United Water of New Jersey Base Rate Proceeding*	Docket WR95070303	01/1996
Elizabethtown Water Company Base Rate Proceeding*	Docket WR95110557	03/1996
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United Water Vernon Sewage Company Base Rate Proceeding*	Docket WR96030204	07/1996
United Water Great Gorge Company Base Rate Proceeding*	Docket WR96030205	07/1996
South Jersey Gas Company Base Rate Proceeding	Docket GR960100932	08/1996
Middlesex Water Company Purchased Water Adjustment Clause Proceeding*	Docket WR96040307	08/1996
Atlantic City Electric Company Fuel Adjustment Clause Proceeding*	Docket No.ER96030257	08/1996
Public Service Electric & Gas Company and Atlantic City Electric Company Investigation into the continuing outage of the Salem Nuclear Generating Station*	Docket Nos. ES96039158 & ES96030159	10/1996
Rockland Electric Company Electric Fuel Clause Proceeding*	Docket No.EC96110784	01/1997
Consumers New Jersey Water Company Base Rate Proceeding*	Docket No.WR96100768	03/1997
Atlantic City Electric Company Fuel Adjustment Clause Proceeding*	Docket No.ER97020105	08/1997
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South Jersey Gas Company Limited Issue Rate Proceeding	Docket No.GR97050349	12/1997
New Jersey American Water Company Limited Issue Rate Proceeding	Docket No.WR97070538	12/1997
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Mount Holly Water Company Merger with Homestead Water Utility	Docket No. WM99020091	10/1999
Applied Wastewater Management, Inc. Merger with Homestead Treatment Utility	Docket No.WM99020090	10/1999
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Elizabethtown Gas Company		
Gas Cost Adjustment Clause Proceeding	Docket No.GR99070509	03/2000
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New Jersey American Water Company Gain on Sale of Land	Docket No. WM99090677	04/2000
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Shore Water Company Base Rate Proceeding	Docket No. WR99090678	05/2000
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Consumers Water Company Water Base Rate Proceeding*	Docket No. WR00030174	09/2000
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Elizabethtown Gas Company		
Gas Cost Adjustment Clause Proceeding	Docket No. GR00070470	10/2000

DSM Adjustment Clause Proceeding	Docket No. GR00070471	10/2000
Trenton Water Works Water Base Rate Proceeding*	Docket No. WR00020096	10/2000
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Pineland Water Company Water Base Rate Proceeding*	Docket No. WR00070454	12/2000
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Wildwood Water Utility Water Base Rate Proceeding*	Docket No. WR00100717	04/2001
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Public Service Electric & Gas Company Gas Base Rate Proceeding* Direct Testimony	Docket No. GR01050328	08/2001
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Consumers New Jersey Water Company Stock Transfer/Change in Control Proceeding	Docket No. WF01080523	01/2002
Consumers New Jersey Water Company Water Base Rate Proceeding	Docket No. WR02030133	07/2002
New Jersey American Water Company Change of Control (Merger) Proceeding*	Docket No. WM01120833	07/2002
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New Jersey American Water Company Change of Control (Merger) Proceeding	Docket No. WM02020072	09/2002
Public Service Electric & Gas Company Electric Base Rate Proceeding Direct Testimony*	Docket No. ER02050303	10/2002
United Water Lambertville Land Sale Proceeding	Docket No. WM02080520	11/2002
United Water Vernon Hills & Hampton Management Service Agreement	Docket No. WE02080528	11/2002
United Water New Jersey Metering Contract With Affiliate	Docket No. WO02080536	12/2002
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Consumers New Jersey Water Company Acquisition of Maxim Sewerage Company	Docket No. WM02110808	05/2003
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El Paso Electric Company Rate Moderation Plan	Case 2009	1986
El Paso Electric Company Electric Base Rate Proceeding	Case 2092	06/1987
Gas Company of New Mexico Gas Base Rate Proceeding*	Case 2147	03/1988
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Public Service Company of New Mexico Phase-In Plan*	Case 2146/Phase II	10/1988
El Paso Electric Company Electric Base Rate Proceeding*	Case 2279	11/1989
Gas Company of New Mexico Gas Base Rate Proceeding*	Case 2307	04/1990
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Green Mountain Power Corporation Electric Base Rate Proceeding	Docket No. 5695	01/1994
Central Vermont Public Service Corp. Rate Investigation	Docket No. 5701	04/1994
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